The odds on a steel strike

(Page 101)

INDEX · 175 · 150 · 125 · 100 · 75 · 50 · 25 · 0

BUSINESS WEEK

A McGRAW-HILL PUBLICATION FIFTY CENTS FEB. 21, 1959

Bank of America's S. Clark Beise— How a chain of neighborhood banks makes the world's biggest banking empire. (Finance)


AIR
POLIC
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IN BUSINESS THIS WEEK February 21, 1959

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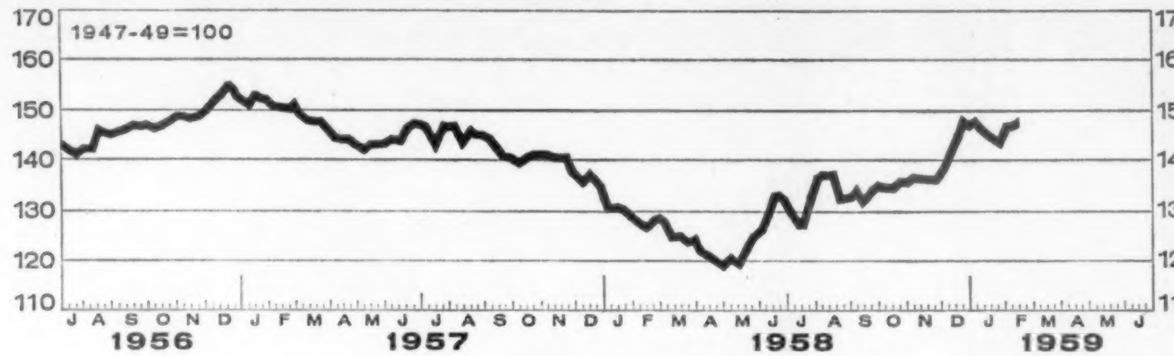
NUMBER 1538

FIGURES of the WEEK



	1946 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
BUSINESS WEEK INDEX (chart)	91.6	129.0	145.5	†147.6	*148.5

PRODUCTION

	1946 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
Steel ingot (thous. of tons)	1,281	1,373	2,056	†2,371	**2,439**
Automobiles and trucks	62,880	128,751	166,693	†148,328	**149,774**
Engineering const. awards (Eng. News-Rec. 4-wk. daily av. in thous.)	$17,083	$52,494	$60,147	$65,053	**$65,480**
Electric power (millions of kilowatt-hours)	4,238	12,417	13,324	13,292	**13,156**
Crude oil and condensate (daily av., thous. of bbls.)	4,751	6,852	7,087	7,213	**7,155**
Bituminous coal (daily av., thous. of tons)	1,745	1,243	1,366	†1,431	**1,383**
Paperboard (tons)	167,269	259,233	305,778	298,371	**310,348**

TRADE

	1946 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
Carloadings: mfrs., miscellaneous and l.c.l. (daily av., thous. of cars)	82	53	53	57	**56**
Carloadings: all others (daily av., thous. of cars)	53	36	39	40	**38**
Department store sales index (1947-49 = 100, not seasonally adjusted)	90	99	121	106	**108**
Business failures (Dun & Bradstreet, number)	22	319	294	271	**292**

PRICES

	1946 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
Spot commodities, daily index (Moody's, Dec. 31, 1931 = 100)	311.9	397.9	385.4	384.6	**383.2**
Industrial raw materials, daily index (BLS, 1947-49 = 100)	††73.2	83.7	89.2	89.2	**88.8**
Foodstuffs, daily index (BLS, 1947-49 = 100)	††75.4	88.2	79.4	78.1	**78.2**
Print cloth (spot and nearby, yd.)	17.5¢	17.4¢	18.2¢	18.4¢	**18.5¢**
Finished steel, index (BLS, 1947-49 = 100)	††76.4	181.8	187.0	187.0	**187.0**
Scrap steel composite (Iron Age, ton)	$20.27	$37.33	$41.17	$43.83	**$43.83**
Copper (electrolytic, delivered price, E & MJ, lb.)	14.045¢	24.890¢	29.020¢	30.000¢	**30.063¢**
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.)	$1.97	$2.20	$1.99	$2.02	**$2.03**
Cotton, daily price (middling, 1 in., 14 designated markets, lb.)	**30.56¢	34.59¢	34.28¢	34.26¢	**34.26¢**
Wool tops (Boston, lb.)	$1.51	$1.78	$1.63	$1.62	**$1.61**

FINANCE

	1946 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
500 stocks composite, price index (S&P's, 1941-43 = 10)	17.08	41.14	55.82	54.29	**54.34**
Medium grade corporate bond yield (Baa issues, Moody's)	3.05%	4.65%	4.87%	4.90%	**4.90%**
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate)	¾-1%	2⅝%	3¼%	3¼%	**3¼%**

BANKING (Millions of Dollars)

	1946 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
Demand deposits adjusted, reporting member banks	††45,820	55,548	58,693	57,540	**57,510**
Total loans and investments, reporting member banks	††71,916	87,156	94,694	94,863	**94,294**
Commercial and agricultural loans, reporting member banks	††9,299	30,330	30,651	30,154	**30,156**
U. S. gov't guaranteed obligations held, reporting member banks	††49,879	26,313	31,266	31,954	**31,555**
Total federal reserve credit outstanding	23,888	24,543	27,708	27,092	**27,136**

MONTHLY FIGURES OF THE WEEK

		1946 Average	Year Ago	Month Ago	Latest Month
Personal income (seasonally adjusted, in billions)	**January**	$179.3	$348.8	$359.9	**$362.3**
Farm income (seasonally adjusted, in billions)	**January**	$18.1	$16.2	$17.5	**$17.2**
Bank debits (in millions)	**January**	††$85,577	$212,908	$238,975	**$221,925**
Imports (in millions)	**November**	$412	$1,043	$1,142	**$1,089**

** Preliminary, week ended February 14, 1959.*
† Revised.
†† Estimate.
*** Ten designated markets, middling 15/16 in.*
§ Date for 'Latest Week' on each series on request.

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READERS REPORT

Propaganda Weapon

Dear Sir:

There is an article entitled Russia's Newest Trade Weapon [BW—Jan.24'59,p34] describing how Russia is importing into the United States school laboratory equipment at prices one-fifth of the prevailing prices for comparable United States-made items and this in spite of a 42% import duty. In reading the article one obtains the impression that in this country everyone is wondering why Russia is embarking on such a program.

It seems to me the answer is fairly obvious. The sale of this very cheap but very good school laboratory equipment in this country is not a trade weapon but a propaganda weapon of the most dangerous sort. These pieces of equipment will be placed in the hands of young scientifically inclined teenagers. This means that they are possessed with a great deal of intellectual curiosity but lacking in maturity of judgment. It is, therefore, extremely possible that some of them will conclude there must be some good to an ideology which can produce such instruments at such low prices. Even if only 10% of our budding scientists obtain this mistaken impression, Russia will thus have won a cheap propaganda victory....

GILBERT C. DELVAILLE
RIVERSIDE, CALIF.

Helpful Document

Dear Sir:

We read with interest Personal Business [BW—Feb.7'59,p81] in which you point out that formal proof of age is required for persons retiring under Social Security benefits.

A transcript of an individual's census record is one of the most acceptable proofs of age, in the absence of a regular birth certificate. In fact, more than 3.5-million transcripts have been furnished by the Census Bureau since the Social Security Act was approved in 1935. Not all of these have been for retirement purposes, of course. Other uses have been for proof of citizenship for persons applying for jobs in defense plants, for persons applying for passports, and so on.

A. W. VON STRUVE
PUBLIC INFORMATION OFFICE
BUREAU OF THE CENSUS
WASHINGTON, D. C.

Another example of

CHEMICAL PROGRESS

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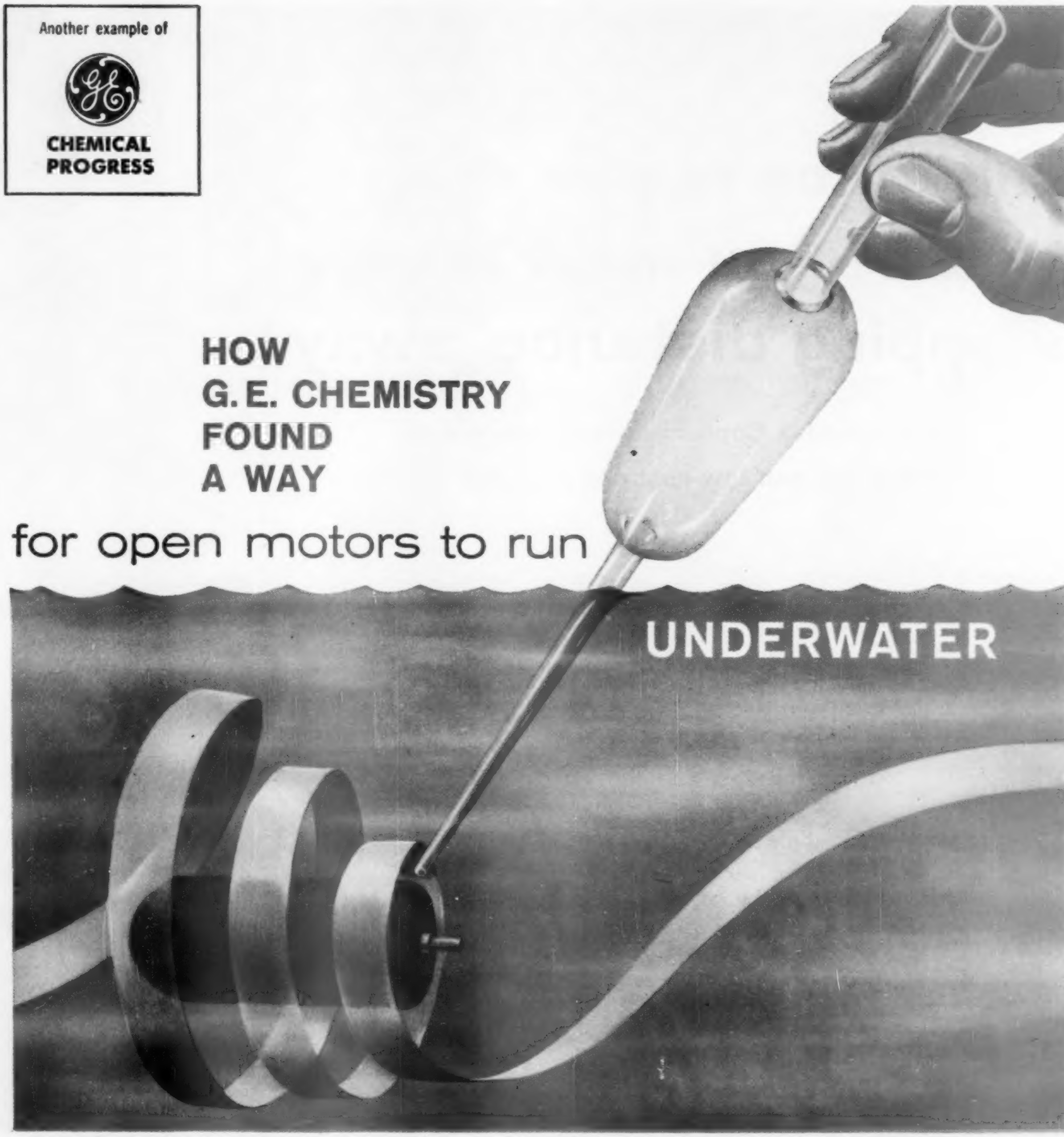
for open motors to run



Water runs *through* the working parts of General Electric's new "wet" motors. Windings, bearings, magnetic components function completely immersed in corrosive sea water . . . in water under high pressure . . . even in chemical process liquids.

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The chemical research that led to the development of IRRATHENE is part of a sustained program of chemical investigation by General Electric to find new and improved materials for American industry. If you'd like to know more about IRRATHENE insulation, write Dept. IMD, CHEMICAL AND METALLURGICAL DIVISION, General Electric Company, Schenectady, New York.

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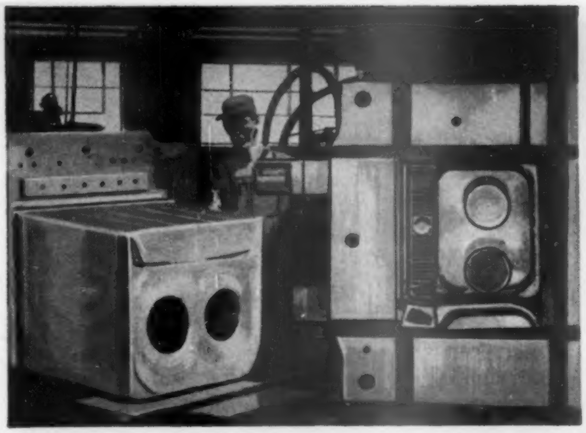

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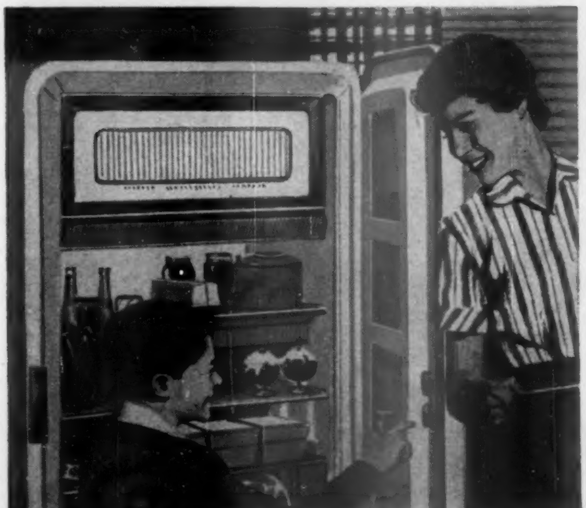

PERMANENT MAGNETS – Although widely used in electronic applications, Crucible Alnico permanent magnets are now finding their way into many different types of products from refrigerator door latches and other attractive devices to magnetos, motors, generators and numerous instruments. Crucible Alnico magnets are sand cast, shell molded, or investment cast in any shape, tolerance and finish needed – in any size from a fraction of an ounce to several hundred pounds.

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BUSINESS OUTLOOK

BUSINESS WEEK
FEB. 21, 1959

A BUSINESS WEEK SERVICE

Production gains so far this year may not have many manufacturers holding their hats (unless they're in steel). Certainly **the rate of recovery has been less than it was last autumn** (page 23).

Yet **personal income continues to rise** satisfactorily. And **retail sales** show that the consumer, though he may be cautious, isn't on strike.

Personal income goes on making new highs almost every month.

The January figure, as estimated by the Dept. of Commerce, was at a seasonally adjusted annual rate of $362.3-billion. This overcame December's stutter to surpass November's high by $1.6-billion.

The current income level is up $15-billion from the recession low and stands fully $10-billion above the 1957 peak.

•

Wage-and-salary earners are catching up rapidly now; they had recovered income a little more slowly than other segments of the population. They crossed their best 1957 level in November; December and January both pushed on to new highs.

January's annual rate of $244½-billion was $12-billion above the low.

The economy is in little danger of a relapse as long as record consumer income keeps retail sales on new high ground.

The towering level of store sales in both December and January leaves little room for disappointment in the consumer. Such misgivings as there are must still concern his **attitude toward durable goods.**

And even here, there are brighter signs. Early-February **auto sales struck a much happier note.** Meanwhile, with homebuilding activity what it is, **home furnishings and appliances should be in excellent demand.**

—•—

Production wasn't surging upward last month, judged by reports to the Federal Reserve Board, but the **breadth of the rise** continued impressive.

The board's over-all production index rose another point to 143.

That brings the index 17 points above the low. To make this possible, **nondurable goods** have pulled about 4% above their best 1956-57 boomtime levels while **durable goods** have made up about two-thirds of their loss.

—•—

Demand for metals now is pacing the recovery. This is partly because inventories were pulled down too far, but it must also be presumed that **stocking against strikes is borrowing from activity later in the year.**

Steel's new boom is too well known to need much elaboration. Yet the rise has gone so fast that the outsider may not fully appreciate it.

Steel output in the current quarter promises to be very close to 30-million tons. **This would be the best since 1957's first quarter.**

But that's only part of the story. **Steel operations next quarter should average better than 90% of capacity** for a 33-million-ton output.

That would make it the **best three months in the industry's history.**

People who have watched steel at or even above capacity for considerable periods in the past may not be impressed by the 86% rate at which operations were scheduled this week. But, considering the industry's present annual capacity of 147.6-million tons, this takes on new meaning.

This week's output is running at an annual rate of 125-million tons. The best full year, up to now, totaled 117-million.

Nobody, in or out of the steel industry, expects the second half's tonnage to come up to the 63-million or more likely in the first half.

A third-quarter drop—strike or no—is considered a certainty.

So steel's production curve this year will be an up, a down, and an up again. How far it will go up again the last quarter—beginning another new-model year for autos, with those new "compact" cars included—is one of 1959's more interesting points of speculation.

—•—

Labor trouble abroad once again is introducing nervousness into metal markets that already were something less than serene.

At midweek, all **Cerro de Pasco's properties in Peru** were closed in a wage dispute. Annual production is 40,000-odd tons of copper and even larger tonnages of zinc and lead.

Copper could face a supply squeeze or a price squeeze—or both—in this country before U. S. labor contracts come up in the summer.

Refiners' stocks have been pulled down sharply in the last six months (mainly due to good profits on exports with world prices above going quotations here). Stocks now are 80,000 tons against 240,000 last summer.

Meanwhile, **London prices continue at a premium over New York.**

To compete, **domestic users may have to bid up**—particularly if they should decide to protect themselves against a possible strike.

The situation in lead, unlike copper, continues one of oversupply.

A leading producer this week announced that it was cutting operations from a five-day to a four-day week.

—•—

Evidence of **the improvement in cotton textiles** is accumulating.

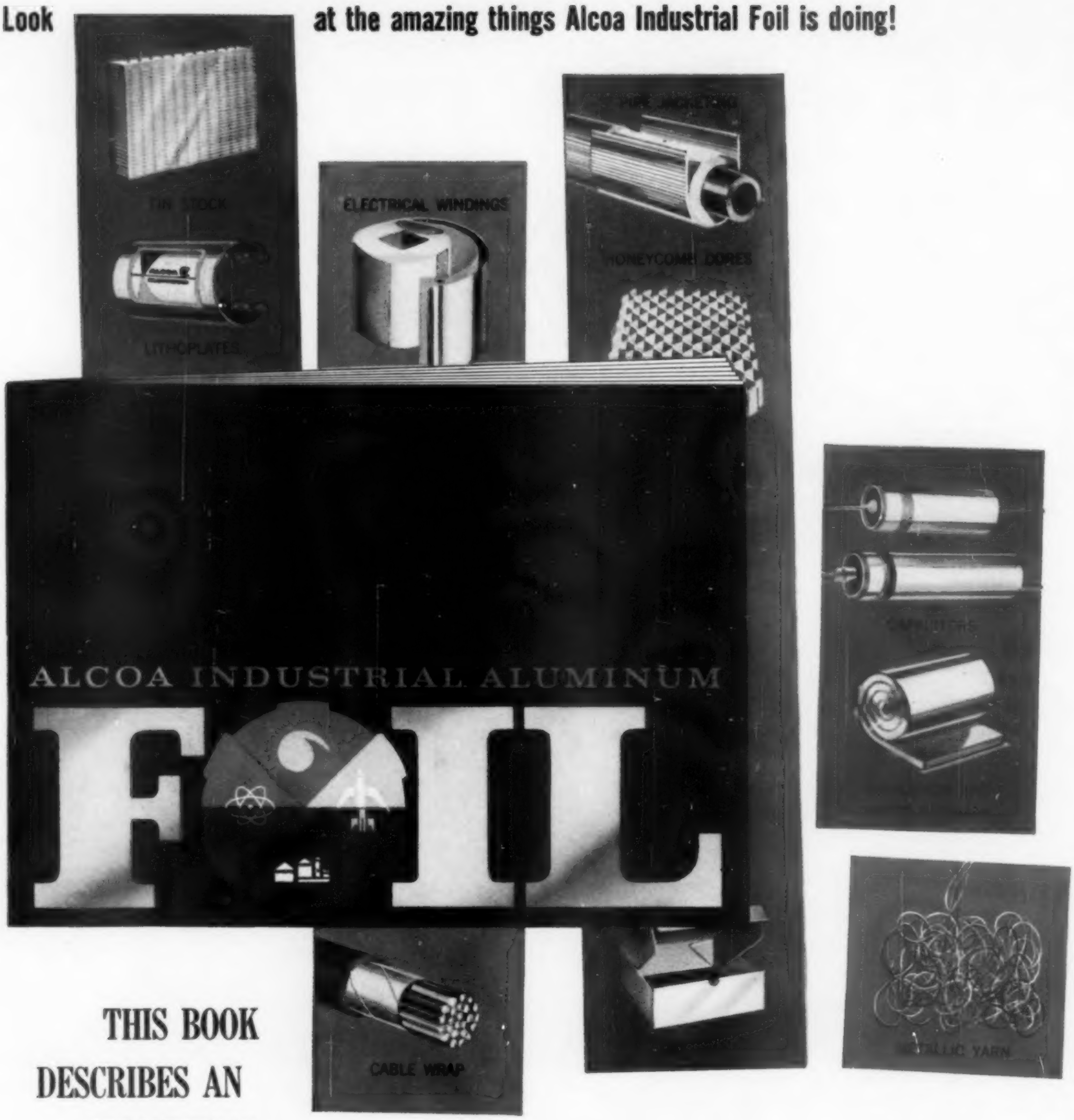
A few days ago, the mills were putting through **price increases** (to meet a wage boost) with apparent confidence of making them stick.

This week the trade was estimating last month's **daily consumption** of cotton at 38,000 bales. That would be the highest since early 1956 and a rate rarely achieved in any month during the last five years.

—•—

Weakness in foreign markets for petroleum and petroleum products (page 26) combined with persistent hunger for dollars create new pressures for U. S. markets. McGraw-Hill's Petroleum Week reports that three Japanese companies have sold refined products on the Pacific Coast while one of them is dickering for a permanent arrangement.

Look at the amazing things Alcoa Industrial Foil is doing!



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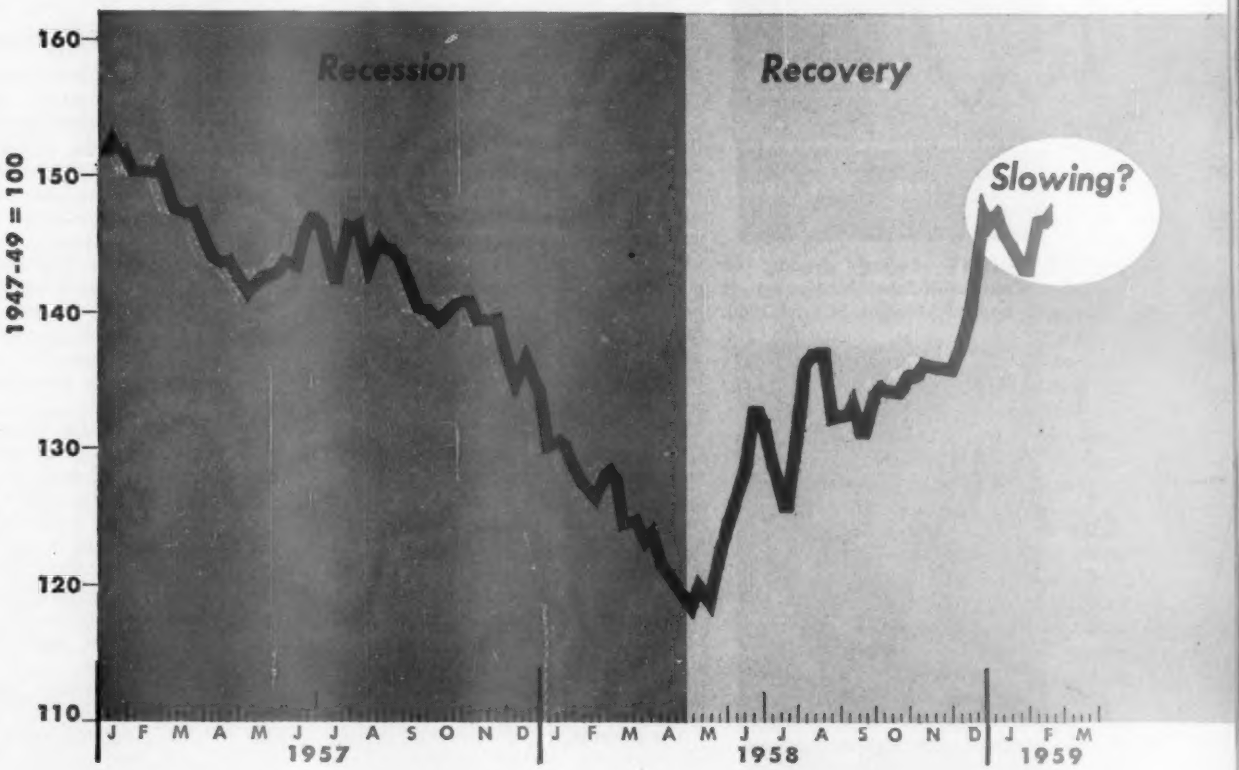
BUSINESS WEEK

FEBRUARY 21, 1959
NUMBER 1538

BUSINESS WEEK Index



For 1959, a Gentle Upward Slant

After 1958's big upward spurt, the recovery shows signs of stalling. But though some forces behind the big 1958 push are slowing down, the continuing climb in income, consumption, and profits will keep the economy moving upward.

The 1957-58 recession was sharper and deeper than most people anticipated. The recovery from April, 1958, on was sharper and faster than was generally expected. But now, with the start of 1959, the recovery has seemed to be showing some signs of stalling. There have been a number of these signs:

• The BUSINESS WEEK index, after getting up almost to the 150 mark in the first week of January, 1959, sagged a bit in succeeding weeks—and is still, at 148.5, well below its early 1957 peak of 154.

• Similarly, the Federal Reserve Board's index of industrial production, after climbing from an April low of 126 to 141 in November—an average monthly gain of better than two points —advanced by only one point per month in December and January. At 143, the FRB index is still a few points below its December, 1956 peak of 147.

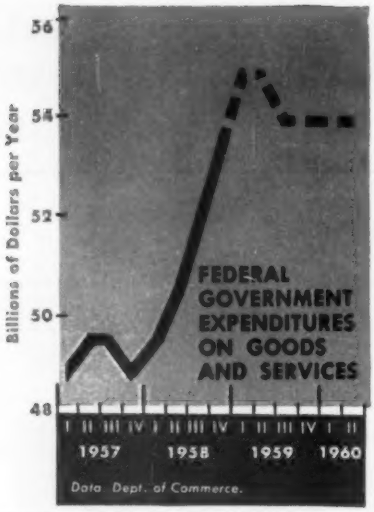
• Unemployment, after dropping from 5.4-million last June to 3.8-million in October, was back to 4.7-million in January.

• Consumers, as various surveys have discovered, failed to recover fully from their recession loss of appetite for durable goods, especially autos. Based on early returns, some Detroit prognosticators last week were revising their earlier 1959 sales forecasts downward from 5.5-million toward 5.2-million. And a group of auto finance people meeting in Washington, along with a number of government economists, were saying that they didn't expect sales of domestically produced cars to go above 5-million this year.

• Finally, the stock market, after its spectacular 1958 climb, was milling about in a narrow range near its peaks during the first weeks of 1959.

• **1959's Patterns**—Faced with these occasions for concern, economists began to grope for new phrases to describe the pattern that's shaping up. Some declared that the "V-shaped recovery was turning into a W." Others looked for a period in which business would move sideways.

But no one has yet produced a phrase



GOVERNMENT: Federal spending on goods and services—if Administration gets its way—will drop by $1-billion in fiscal 1960.

JOBS: Employment has been picking up relatively slowly, and is still well below the high levels reached before the recession.

that hits off exactly the pattern that seems most likely for 1959: a recovery that will continue to advance through the year, though its rate of rise appears likely to be somewhat more moderate than during the first spurt up from the April, 1958, low point.

I. Behind the 1958 Spurt

To see the logic behind that expectation, you've got to set current developments in the perspective of the past couple of years, look carefully to see what produced 1958's V-look.

For the down side of the V, you have to go back to 1957, when consumption failed to grow at expected rates. This caused the 1956-57 investment boom to generate excess capacity, and it made inventories look top-heavy. On top of that came a steep slash in government defense orders, and a monetary policy that stayed tight after investment and consumption began to falter. With all this, the economy broke sharply downward.

Then, early in 1958, business cut back with a vengeance, slashing capital spending on new plant and equipment, and tossing out inventories at a fast clip. The result was the steepest drop in gross national product since the war—a fall of nearly $20-billion.

• **Checking the Drop**—What checked this decline and turned it up so fast?

Government actions of various kinds played a major role—partly by spending aimed directly at the recession, partly through the built-in stabilizers, partly by coincidence.

On purpose, the government stepped up orders for military equipment from an annual rate of $8½-billion in the third quarter of 1957 to over $20-billion in the first quarter of 1958. At the same time the Federal Reserve liberalized money and credit. These moves, together with heavy government aid to the Federal National Mortgage Assn., gave a powerful upward thrust to housing.

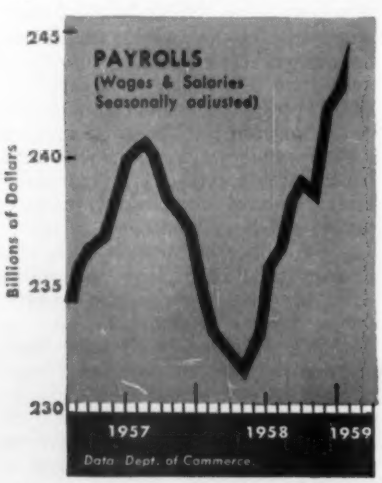
The built-in stabilizers—mainly the rise in unemployment compensation and Social Security payments, together with the drop in taxes due from individuals and business firms—worked beautifully to insulate personal income from the shock of falling production and rising unemployment.

By coincidence, there were some "windfall" government spending increases—chiefly a boost of more than $1-billion resulting from earlier Social Security changes and a $780-million increase in the pay of government employees. These came just in time to put a prop under personal incomes, strengthen the recovery.

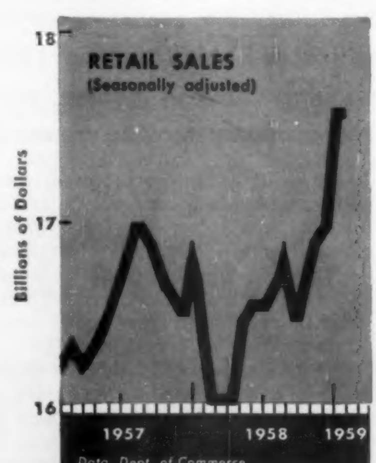
As a result, while industrial output was falling more than 12% and GNP about 5%, personal income and consumption held steady, declining only about 1%. That was the rock that broke up the wave of inventory dumping.

• **Upward Push**—So the big push back uphill began. Inventories swung from a liquidation rate of nearly $10-billion to a holding level at the end of the year, giving the economy a $10-billion forward thrust. The gain in private housing construction added an extra push of $4-billion. Federal government spending on goods and services increased by more than $3-billion; state and local spending by $2-billion.

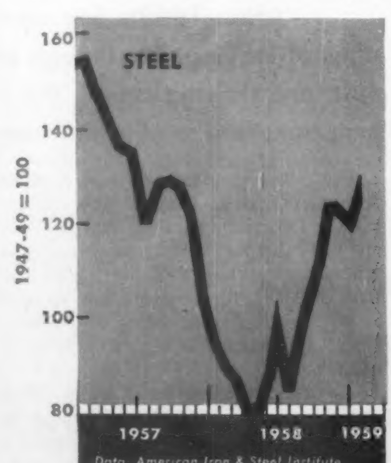
These gains put steam behind the recovery in output. At the same time, extra output generated extra income, and that generated a rising consumption trend. With wage rates continuing to move upward, payrolls moved to new highs, despite the persistence of unemployment at about 6% of the labor force. Retail sales, which had dipped



PAYROLLS: Income from wages and salaries has climbed to an all-time high, and so has the level of total personal income.



RETAIL SALES: Consumers are boosting their spending as their income rises. As a result, retail sales are at a new peak.



STEEL: But hardgoods have not fully recovered. Steel is getting a boost from inventory building, partly due to strike worries.

last winter and early spring, climbed to all-time highs in December and January.

With industry operating at better rates of capacity—and still reaping the benefits of the recession-inspired drive for greater productivity, profits recovered rapidly. In the first half of 1958, total corporate profits before taxes were at a $32-billion annual rate; by the last quarter of the year, they were back up to a $45-billion rate. They're still rising.

II. Reading the Signs

The case for an early 1959 slowdown in general activity will get little support from the gross national product figures, when they are published. First-quarter GNP, according to all evidence at hand, appears to be running at an annual rate of $463-billion—up $10-billion from the fourth-quarter 1958 rate, and $37-billion from the recession low.

The main elements in the current quarter's advance will be these: a $4-billion to $5-billion rise in personal consumption, a $2-billion gain in housing expenditures, a better than $1-billion rise in government spending, and about a $3-billion increase in inventories (BW—Feb.14'59,p136).

• **What the Signs Mean**—With so much to cheer about, why the anxious talk about W's and flattening movements? That it's more than a mere end-of-winter psychological letdown is evident from the signs of stalling mentioned earlier. But all of these signs need to be slid under a microscope to get a better look at their real significance.

The slow pickup in industrial output, reflected both by the BUSINESS WEEK and Federal Reserve indexes, indicates that the $10-billion shot-in-the-arm provided by the 1958 swing of inventories is not being sustained now by as rapid a movement toward inventory building. Beyond that, the lag of industrial output below its 1956 and early 1957 peaks reflects how much this was a "durable goods" recession, with its worst impact in such areas as autos and steel. Getting back to past highs, after the kind of beating durable goods have taken, will take some time.

Moreover, after the continuous pre-recession climb in industrial capacity, most industries are still operating uncomfortably below their preferred operating rates of about 90%. This restrains a strong resurgence of capital spending, despite the profits trend.

The recent rise in unemployment seems to have been no more than can be accounted for by seasonal factors. The growth in the labor force and the smart gain in productivity (BW—Sep.20 '58,p37) have undoubtedly served to reduce the rate at which unemployment is being mopped up. Harvard's Sumner Slichter emphasizes another reason, however, for the relatively slow gain in employment during the fast increase in output—the fact that in this recovery weekly working hours have increased, whereas in the previous two recoveries they declined. This shift, Slichter thinks, is due to "the spirit of caution or timidity that has dominated the business world."

Consumers, likewise, have not overcome their recent caution or timidity as both the behavior of auto sales and the evidence of the psychological pollsters testify. Some even talk of a revolution in taste away from expensive hardgoods toward softgoods and services.

The worries of the hardgoods producers, of course, focus on autos. January auto sales figures ran 12% ahead of January, 1958. Even if this should improve to a 15% rise for the year as a whole, Detroit would end up the year with an output of only 4.8-million cars. But if the big auto producers switch to small cars—and can price them in a sufficiently appetizing way—the year's results might still be substantially better.

Whatever the stock market is saying, it's not saying it in a clear and unequivocal voice.

If anything, the market's recent behavior—like the other signs—appears mainly to reflect a general anticipation of a slower rate of rise through the rest of 1959.

III. Patterns for 1959

This does seem like a reasonable expectation. Measure the forces that induced the rapid 1958 recovery against the probable performance of these forces in the coming year, and you see why.

Federal spending on goods and services climbed $3-billion last year. For 1959, the Commerce Dept. estimates, on the basis of the Administration's own budget and GNP projections, a $1-billion gain in the first half, then a $1-billion decline through the second half of 1959 and the first half of 1960. Even if you assume that the Democratic Congress won't go along with Eisenhower's budget, you still don't get much more than a flat trend in federal spending.

Last year, the biggest boost to recovery came from the $10-billion inventory turnaround. For 1959 as a whole, inventory building is unlikely to break outside a $3-billion to $5-billion range.

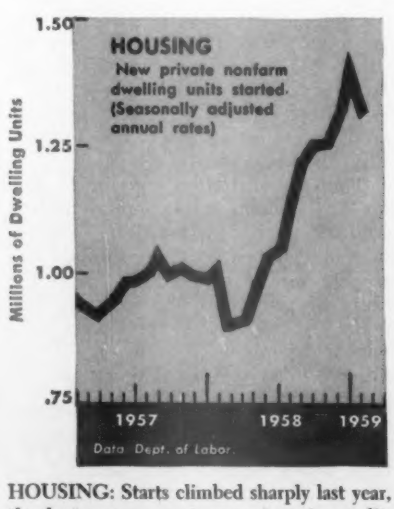
Housing expenditures are still on the rise—because they lag behind housing starts, which rose dramatically in the latter part of 1958. But without the same government support for housing as last year, and with a somewhat stiffer mortgage market, housing starts should be coming down a bit, with housing expenditures following after.

But other things, especially the continuing climb in income and consumption, and in profits, will put further props under the economy in 1959, enough to keep it on a gradual upward trend.

• **Questions Ahead**—The tough question is whether that rate of rise in 1959 will be fast enough (1) to soak up remaining unemployment and (2) to trip off a recovery in capital spending. Capital spending might get a boost if the economy moves up to higher rates of capacity operation, and if the growth in profits generates a more expansive business mood. If it does revive, the economy will shift into high gear and a faster growth rate. This could happen toward the end of 1959, but from where we are now, 1960 looks like a somewhat better bet.

Unemployment, though likely to be less at the end of 1959 than it is now, will still be a bit higher than during the earlier postwar years.

AUTOS: Output has climbed up from recession lows, but outlook for year still looks draggy. New models might change this.



HOUSING: Starts climbed sharply last year, thanks to government support, easier credit. But 1959 trend is likely to flatten.

Oil Price War

Cuts of crude prices in Middle East come on top of cuts in Venezuela and the U. S., as world markets slumps.

The threat of a worldwide price war in crude oil hung over the oil industry this week.

The war could be touched off in the Mideast, where British Petroleum Co. last week slashed crude prices 18¢ a bbl. U.S. majors in the area already are following suit; in fact, Esso Export Corp. cut prices 19¢ a bbl. And it appears as if the other international oil companies will go along with the deeper cut. This could set off another flurry of price cuts in an already deteriorating world market for crude.

• **Last Straw**—BP's move was formal recognition of the new oversupply of crude in world markets. It came in the wake of 15¢-a-bbl. cuts by Venezuela's big three—Creole, Shell, and Socony. And it followed a long series of cuts in the posted prices for U.S. crude, climaxed by a 7¢-a-bbl. cut in West Texas last week.

But BP's move was really the clincher. As the Mideast gradually shakes off the influence of Gulf pricing policies, which were once the worldwide standard, it becomes increasingly the key price-setter of world oil. And its deep cut is an open invitation for other oil companies to join battle both on crude and product prices. What's more, world pricing is now much more on the griddle than U.S. prices are.

• **Home Situation**—The U.S. oil industry is in much better shape in terms of inventories, than it has been for a good many years. But U.S. crude prices are being trimmed for two reasons. For one thing, the industry over the past year has been moving toward a more "realistic" pattern of crude pricing, toward making prices conform to the quality of crude and getting the most profit out of each barrel.

Even more important, refiners, concerned about the narrow margin between crude and product prices, are pressing for lower prices. In recent months, as the oil industry has recovered from recession, refined product prices have risen a bit, improving the refiners' gross spread—the difference between the prices of crude and of product. But refiners have had to operate at 85% or so of capacity, in order to keep inventories of gasoline and burning oils in hand, so their net margin hasn't shown any dramatic increase.

• **It's Different Abroad**—The situation is vastly different abroad. There, foreign oil producers are faced with something close to a glut, and price competition is fierce. Moreover, it's not likely to ease anytime soon. Not only are world ports flooded with oil, but newcomers to foreign concessions are also producing more and more. And there's always the threat of free-flowing Russian oil.

Europe's rate of growth in oil demand —though still healthy—is falling off somewhat. And there's a slew of hungry tankers around, waiting for any oil man who wishes to make a deal. So most oil experts predict another round of price cuts, or at least generous price discounting, in the months ahead.

It has been an open secret for nearly a year that companies in the Middle East were offering discounts— on freight allowances, quality, any number of things—below posted prices to meet competition. Only two weeks ago, there was a great deal of noise when Japanese buyers were given a 10¢-a-bbl. discount on Arabian oil.

• **Sharing the Loss**—Since the traditional 50-50 profit-sharing formula between the companies and the local oil-country government is generally based on posted prices, not real prices, the oil companies themselves were making up the discount out of their own pockets. It was a foregone conclusion that this couldn't go on too long.

Their reluctance to cut prices sooner, of course, was based on the fear of rousing the displeasure of the foreign producing states, whose demands for cash constitute constant pressure on oil companies to sell the maximum amount of oil at the highest prices. Thus, the companies were caught between two fires—competitors on the one hand and profit-seeking kingdoms on the other.

BP's hand was finally forced, at least in part, by the Venezuela and West Texas cuts. Oil from those regions doesn't compete greatly with BP, but the price cuts meant that BP and the other Mideast companies could now face up to their local governments.

• **Critical Time**—The general break in crude prices comes at a crucial political turn for producers.

The Administration is trying to plug up the loopholes in its voluntary import control program. Mandatory controls may be clamped on crude imports and a wide variety of products. And the flurry of price cuts abroad lends new point to those U.S. producers who scream for rigid controls on "cheap imports." As one oil man put it: "It shows how uncertain we are of foreign oil movements and prices."

Of course, if rigid controls come, they would further limit demand for foreign oil. But they will mean a lift for domestic crude—and this could help product prices as well.

Steel for Chicago

l 'ational Steel's new mill near Michigan City, Ind., will give producer a foothold in a deficit area.

The world's finest steel market, Chicago, pulled a new steel producer into its orbit this week.

National Steel Corp., the country's fifth-largest producer, hopes to have a non-integrated mill, to produce light flat-rolled and coated steels, operating not far from Michigan City, Ind., in about 2½ years.

Its raw material, hot-rolled coils, will be shipped from Great Lakes Steel Corp.'s Detroit plant, which will add 500,000 annual ingot tons capacity. Great Lakes is one of National's two steelmaking subsidiaries. The new mill will be owned and operated by Midwest Steel Corp., which will be a division of National.

• **$300-Million Program**—Great Lakes will add its 500,000 tons of ingot capacity without adding a single new furnace. Presently, only five of its 17 open hearths are equipped for roof-lancing of oxygen (BW—Jan.31'59,p27), but all will be equipped. And two 250-ton furnaces will be raised to 500-ton capacity. That will furnish capacity at very attractive capital costs.

Altogether, National plans to spend about $100-million at Great Lakes, including the new ingot capacity and the 80-in. hot mill. That program—plus the Midwest Steel plant, plus some new tinplate capacity—totals up to a $300-million spending program.

• **Pluses**—The new mill will just about double National's products available to the Chicago area. But its implications for National Steel will be much more striking. For example:

• National will improve remarkably its "mill net return"—its net revenue per ton after paying freight charges from mill to customer.

• It will be able to load its Detroit steelmaking capacity more effectively, thus offset some of the sickening volatility of the automobile business. Historically, Great Lakes has been almost exclusively an automotive steel producer.

• It gives National a foothold in the Chicago market, the goal of every ambitious steel producer that isn't in it.

• **Trend-Setter**—For the steel industry as a whole, National's move may demonstrate the way to set up a wholly new mill at a new operating location. For while there's not now any program to erect steelmaking capacity at the new plant, it's almost inevitable that Na-

tional will ponder that prospect before many years go by.

U. S. Steel used much the same strategy on a far smaller scale some years ago when it set up a pipe mill at Orange, Tex. But National's move is big enough to be a trend-setter, perhaps, and it prods Bethlehem Steel, which owns about four times as much property close by, to make up its mind on how to get into Chicago. That was Bethlehem's object in seeking a merger with Youngstown Sheet & Tube, which has a major mill nearby at Indiana Harbor. Bethlehem says only that it is studying how it can best serve the Midwest market.

When steel producers outside the Chicago district are absorbing freight, as they have been for some time, Chicago business becomes less attractive than sales closer to home. Even so, the area's steel users are too important for any major producer to turn his back on Chicago. Now Chicago business will be more profitable for National.

Troubles Pile Up for Guterma

Financial wizard is arrested on criminal charges by SEC, and trading in his companies is suspended.

Alexander L. Guterma

Alexander L. Guterma (picture), who almost overnight acquired a reputation for fast financial footwork that even sophisticated investment men found hard to follow, was tripped up this week by the Securities & Exchange Commission.

SEC's own moves matched Guterma's talent for speed and intricacy. It suspended all trading in the shares of F. L. Jacobs Co., which Guterma headed, and Bon Ami Co., which he used to head. Then it got a 10-day preliminary injunction barring Guterma from selling his Jacobs holdings to the public. It accused him of attempting a classic "bailout" operation—dumping stock of a corporation whose financial condition is in question, leaving the public to hold the bag.

• **Move and Countermove**—At the same time, it took the unprecedented step of getting Guterma arrested on a criminal charge of failing to file "insider reports" required by SEC, covering past transactions in Jacobs stock. It explained it wanted to block an alleged attempt by Guterma to flee the U.S. for Turkey.

Guterma was quick to counter. He resigned as president and chairman of Jacobs and announced he had sold an undisclosed number of his shares to Hal Roach, Jr., who runs a Jacobs subsidiary—Hal Roach Studios—that, in turn, owns the Mutual Broadcasting System. He vigorously denied planning to skip the country, and plastered a subpoena on Paul Windels, Jr., who heads SEC's New York office, charging him with a personal grudge and a desire for publicity.

• **Run of Successes**—While Guterma claimed that he would win his case in court, observers were surprised that he got into such a tangle at all. Since his arrival in the U.S. from Manila in 1950, he had been involved in scores of deals and promotions, some of questionable merit, without running into trouble. Few of those who knew him felt he would ever make a real mistake.

According to Edward C. Jaegermann of SEC, Guterma did trip up. His error, says Jaegermann, was a loan guarantee he negotiated with Long Island's Security National Bank—the same bank, incidentally, used by the "boy wonder" manipulator Earle Belle, now in South America, and Joseph Lamonica accused of check kiting (BW—Nov.15'58,p31).

• **No Bank Loss**—Paradoxically, the Guterma deal has paid off for the bank. According to SEC, Jacobs—which Guterma had transformed from an auto parts maker to a holding company that served as the base of his operations—borrowed \$1.6-million from a group of private lenders. This group included a Swiss trust called UFITEC, which is controlled by Abdulla Zilhka, an international operator who is also known for his financial acumen. The funds were borrowed through a series of notes endorsed by the Security National Bank, which got a 6% per annum fee for its guarantee. Nobody knows what Guterma did with this money.

George A. Heaney, then president of the bank, endorsed the Jacobs notes without informing his board of directors of the deal, despite the fact that he was not allowed to commit the bank for over \$50,000 on his signature. This made the transaction illegal, according to the U.S. Attorney's office, which arrested Heaney and is presenting evidence to a grand jury.

After Heaney's ouster, the bank began a house-cleaning and put pressure on Guterma to pay down the notes. Guterma apparently complied. As of this week, only \$280,000 of the \$1.6-million loan is still outstanding, and this balance is fully secured by good collateral, the bank says.

• **Under Pressure**—But, SEC says, Guterma had to scramble to raise the money through some desperate financial arrangements, and this got him into a jam. SEC alleges that Guterma borrowed by pledging his personal and corporate holdings of Jacobs, Bon Ami, and some Jacobs subsidiaries with a number of "high rate" money lenders, including UFITEC, Silver Co., and the Redlan Trading Corp. Interest on these loans, says SEC, ran as high as 2% a month.

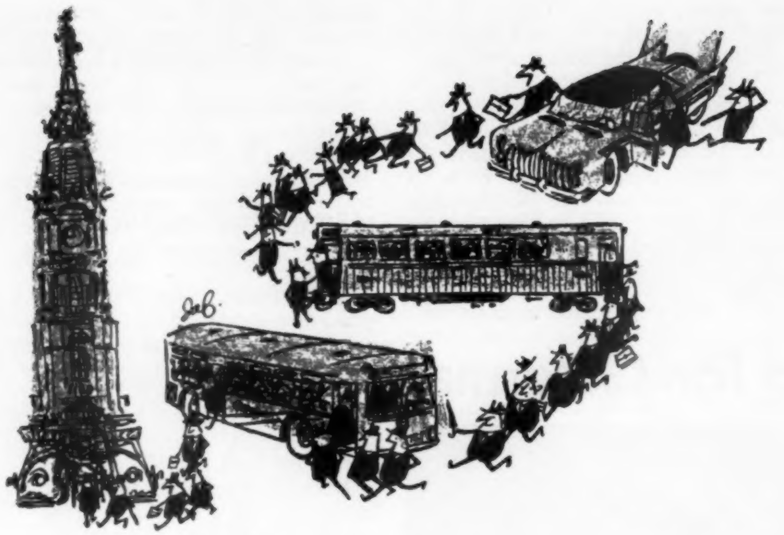
There's nothing wrong in making such deals, but Windels claims that Guterma made them without any intention of paying off. Instead, Windels alleges, he planned to default and let the lenders sell his collateral.

• **Trading in Jacobs**—Last December, the New York Stock Exchange suspended trading in Jacobs for failure to file an annual report (BW—Dec.13'58, p53); when the suspension was lifted UFITEC and Silver Co. sold stock. This week, it was disclosed that Silver Co. still had sell orders in for 33,000 Jacobs shares that Guterma had pledged with it. Presumably, these sales had not been executed because the market would not absorb that much at the price Silver Co. wanted.

Guterma says he had no knowledge of these sales. But SEC is sure that he was engaged in an attempted "bailout"—or what is technically an unreported secondary offering by an insider. It's an activity that SEC is trying to stop, and the key to its whole case against Guterma.

• **Last Straw**—By handing over control of Jacobs to Roach, some observers think that Guterma may make SEC's case much more difficult, but SEC put 15 men on the job to track down all his financial doings.

It was a black week all around for Guterma. On top of this trouble with SEC, his wife was robbed of \$42,000 worth of jewels in their Manhattan apartment by two crooks who posed as FBI agents.



Philadelphia Lures Back Commuters by Fare Cuts

Trial on two rail lines, with city and roads jointly footing bill for more trains, cut fares, lures commuters away from autos.

Philadelphia—old in years but young in the boldness of some of the ideas coming out of its distinctive city hall—thinks it is making headway in its effort to solve its "commuter crisis."

Last fall Philadelphia embarked on a six-month trial of an idea propounded by the city's Urban Traffic & Transportation Board. As in other old Eastern Seaboard cities, railroads, losing more and more money on commuter service, had been dropping trains and raising fares—compelling more and more commuters to come to town by car and clutter up the streets.

The board set out to reverse this process. Its idea was this: Let's see if more frequent service and lower fares will bring commuters back from their cars. The city agreed to pay for the added trains; the railroads agreed to absorb any additional losses from fare cuts.

With three months of the trial period data in, the answer to the main question is a clear "yes." The commuters are indeed coming back to the trains. And even though the trial has been a financial flop for the railroads, it appeared at midweek that it would be continued, perhaps with some changes.

• **Operation Northwest—**The six-month experiment that began last Oct. 26 takes in two of Philadelphia's 13 commuter lines—the Chestnut Hill lines of the Pennsylvania RR and the Reading Co. They were picked as guinea pigs for two reasons: (1) They are entirely within Philadelphia city limits, so don't involve the complications that would come if suburban municipalities had to cooperate; and (2) their traffic was not off so badly that it would have taken Herculean efforts to build up.

The Chestnut Hill experiment—or Operation Northwest, as it's called—is a four-way venture:

• The two railroads cut fares, slightly more than 21% on the average. The Pennsy increased trains on the 10-mi. run from 48 to 72 weekdays, 28 to 54 Saturdays, 16 to 20 Sundays. The Reading went up from 66 to 72 trains weekdays, from 30 to 60 Saturdays, from 12 to 20 Sundays.

• The city put up \$160,000—from its general fund—for extra trains, crews, maintenance. The Pennsy gets \$113,000, the Reading (because it added fewer trains) \$47,000.

• The privately owned Philadelphia Transportation Co. cut fares and coordinated schedules on eight bus lines and one trolley line serving suburban stations on the railroads. It added no service, gets no city money.

During the six months, a commuter can buy for 30¢ a railroad ticket that formerly cost up to 53¢ (a 10-trip ticket now costs 29¢ a ride). For 10¢ more, he can buy a ticket including suburban bus or trolley ride, which used to cost him 20¢. Of the 40¢ total, the railroad gets 29¢, PTC 11¢.

• **Smiles—**Though the initial trial period has over two months to run, the outlook is promising, despite a controversy between the city and the railroads over just what the figures mean. And it's now evident that the decline of commuter traffic on the lines has been halted.

The two lines had been reporting drops of 6% a year in commuter use. This week the city reported that passenger traffic on the two lines gained 4.6% in the first three months of the trial period over the same months a year earlier. There's no dispute over that figure. The argument concerns weather comparisons in the two years. The city contends that, adjusting for weather and other factors, traffic actually rose by 8% to 10% or more.

Even this would not enable the roads to break even; they say it would take more than a 30% increase just to make up for fare cuts, not to mention the added service the city is paying for. But a Pennsy spokesman says the road is willing to foot part of the bill for the experiment because it expects the city "will use the resulting information to help effect lasting solutions to the problem of our suburban service deficits."

The city, despite the implication that it may have to go on helping the roads financially, is even happier. It is so pleased with traffic results— spot checks show at least 600 fewer cars coming downtown—that it wants the experiment to continue. City Solicitor David Berger calls it not a subsidy to the railroads, but "more a subsidy to the commuters." The city, he says, "is supplying its residents an essential service."

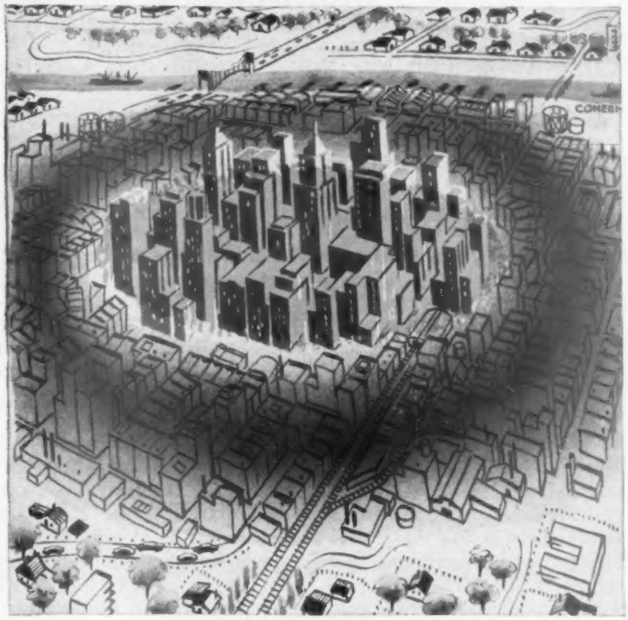
If the trial period is extended, the city would like some improvements—such as more adequate parking at suburban stations. The PTC has already yielded on another point sought by the city, and has extended its cut-rate downtown bus service to rush hours. An extension of the experiment to other Philadelphia lines seems likely to only one or two other lines.

• **Different—**Philadelphia's commuter problem—higher fares, dwindling traffic, more cars—is much like New York's and Boston's. In other cities, either commuters don't ride the rails so much or, as in Chicago, rail commutation is holding up. But Philadelphia's attempted solution has so far no parallel.

Boston and neighboring South Shore communities are subsidizing the New Haven's Old Colony Div. until July 1—but only to maintain existing service, with no added trains or other commuter bait. New York's problem involves three states—New York, New Jersey, Connecticut. The three governors last week jointly heard various proposals, but reached no decisions.

Downtown Rises Above "Gray Belt"

Economic study sees survival for heart of business sections; but only doom for areas extending to the fringe of the suburbs.



The central business districts of large U. S. cities will remain alive for years to come, but no forces now at work can rescue the "gray belt" that fans outward to the very doors of the booming suburbs (drawing).

These are key conclusions reached by Harvard researchers in a three-year study of the New York City metropolitan region. The findings, which were financed by the Ford Foundation and the Rockefeller Bros. Fund, will be published by Harvard later this year. But the public got a preview this week in a paper prepared by Dr. Raymond Vernon, study director, for the Committee for Economic Development.

According to the CED paper, the prognosis for the central city is relative—if not absolute—decline in comparison with the whole metropolitan area.

Along with the migration to the suburbs have gone jobs in manufacturing, wholesale and retail trade. The movement of jobs has in turn spurred the population trek.

• **Holding the Line**—What is left for the central city is office activity—and on this the central city now relies more than ever for its economic survival.

Vernon sees continued growth in office-type jobs—both in financial institutions and in central offices of manufacturing, transportation, and utilities. Although some of these have gone to the suburbs, a "significant nub" has remained to strengthen the central city. They, in turn, attract business services such as advertising and employment agencies.

Financial institutions are obliged to stay behind, even in cases where there is no need for daily personal contacts with each other and with customers. The reason for this is that only downtown can they tap the big pool of literate clerks from the entire area.

Manufacturing, transportation, and utilities are attracted downtown by the same forces, and by the demands of "elite functions"—the desirability of eating at the same clubs, convenience in meeting clients, and so on.

• **Counter Forces**—Without pinpointing the time—New York's study looks 25 years ahead—Vernon sees two forces that one day may restrain office growth:

• As central cities continue to lose population, and as whites are further replaced by Negroes and other groups with "more restricted job opportunities," the longer commuting distances and deteriorating mass transit facilities may discourage white females from coming in to form the pool of clerical labor.

• Data processing equipment could eventually serve to reduce office manpower needs, or change skill requirements.

Shorter term, Vernon suggests that increased air travel by executives and speedier communication of data raise the possibility that only the largest cities would benefit from the growth in office activity.

Without naming them, Vernon thinks that only two or three large cities outside of New York City would really gain in new central office jobs—at the expense of regional centers. While the jet age could permit corporations to disperse their men into the field, he feels that higher centralization at headquarters is more likely.

• **No Return**—But the "gray belt" appears to be doomed, both as a place to live and a place to work. Historically, middle-income families have moved outward. In their wake followed lower-income groups. The dwellings once occupied by the middle-income families eventually become slums, and slums have a population pattern of their own—ranging from congestion to decline.

Vernon sees no remote chance that the "gray belt" will be revived as a place to live. To expect middle-income families to return to the city in larger numbers, he says, "would fly in the face of deep-seated historical trends." And to expect enough new government-supported low-income housing really to reclaim the gray belts would assume "a scale of intervention much larger than any which heretofore has been contemplated."

• **Body Blows**—The exodus of the middle-income group is taking a toll on central city retailing, too. Here, the central business districts have suffered even more than the central city as a whole because of the greater traffic congestion of the business districts as well as the decline of population nearby. Also, there is the relatively slower growth in central business district jobs that would provide the stores with potential buyers.

The trend to the suburbs will not encourage wholesalers to settle in the "gray belt." Since the advent of trucks has freed wholesalers from dependence on railways, they want to locate away from blight, in areas where there is less traffic to run up freight costs, and where they are closer to population growth areas. In the suburbs, land for new plants and rentals for existing buildings are cheaper than in the city. And land is available in large tracts.

"More and more," Vernon writes, "the central city has come to specialize in the 'communications-oriented' segment of manufacturing. More and more, too, the emphasis has been on the 'unstandardized,' the uncertain, and the exotic type of manufacturing specialization. To the extent that manufacturing remains in the central city, these forms of specialization will grow more pronounced still."

Where Are Antitrusters Headed?

● The Administration is moving energetically against industrial concentration via the Sherman and Clayton Acts.

● For business, this means mergers and dominance of an industry will be scrutinized more closely than ever.

● Despite occasional attacks, though, government probably won't try any wholesale breakup of big companies.

Antitrust law as a weapon to regulate the structure of American industry is, in historical terms, at a crossroads today.

Once again, the government apparently thinks the time is ripe for a drive to employ the basic antitrust laws as a means of dealing with concentration in industry.

For example, the Justice Dept. is already embarked on an ambitious program—using the Clayton Act's anti-merger provisions and a smashing court victory against a Bethlehem-Youngstown steel merger—to halt further concentration by merger or acquisition.

At the same time, the antitrusters are talking and acting as if they are eager to reduce the existing degree of concentration in the automobile and steel industries, using the Sherman Act's provisions against monopoly and attempts to monopolize.

• **Long Time Coming**—The recent high tide of antitrust success has not come overnight—though it may seem that way to businessmen recalling only the 1957 Supreme Court decision on du Pont-General Motors and last November's court ruling against the Bethlehem-Youngstown merger. Actually, these decisions were the end product of a great many factors, going clear back to passage of the still basic Sherman Antitrust Act in 1890. Among these factors:

• A series of court rulings, some long ago and some more recent, condemning the possession of monopoly power.

• Congressional concern over the postwar wave of industrial mergers, resulting in amendment of the Clayton Act anti-merger provisions in 1950 to resist any trend toward fewer companies in any one industry.

• The current climate of worry in Congress about the 1957 recession, the problems of growth and inflation, and the possible relationship between inflation and administered prices in concentrated industries.

• **Administration's Vigor**—In addition, from the beginning of the Eisenhower Administration, Republican antitrusters have acted as though they believed in competition and the antitrust laws. No Democratic trustbuster ever achieved, for example, a more significant victory than the wholly Republican victory against a Bethlehem-Youngstown merger.

This record is a conscious achievement of the Eisenhower Administration. All antitrust chiefs in modern times have enforced the law only with the approval of the President and his advisers. The White House today—as under the Democrats—has veto power over any antitrust case or grand jury investigation that an Attorney General proposes.

In the purest political terms, any Administration—Republican or Democrat—has operated on the basic theory that you hardly ever lose votes at the polls by pursuing a vigorous antitrust policy, but you could lose them with a weak program that allows you to be attacked as favoring big business.

I. How Big Is Big?

What is too big? Or, more accurately, when does a company become a monopoly? This question has plagued the courts, the antitrusters, and businessmen ever since the Sherman Act was passed before the turn of the century. For more than a decade, Congressional investigators have flirted with the idea that bigness is bad, per se. Today antitrusters are saying they want to prevent industries now growing up—such as electronics—from becoming as concentrated as autos and steel, for instance, are today.

Under the court decisions, monopoly power—the kind the Sherman Act makes illegal—consists of power over price and power to exclude competition.

Size, under the court rulings, may not be evil in itself but is an "earmark of monopoly power." But what size is illegal? Actually, size is only one factor used by the courts to determine whether monopoly power exists. And the emphasis on size has varied. In 1920, for example, the Supreme Court refused to break up U. S. Steel Corp., which was accused of controlling more than 50% of iron and steel production.

• **Alcoa Case**—A more recent benchmark is Judge Learned Hand's ruling in the Aluminum Co. of America case in 1945. Hand held that Alcoa's production of more than 90% of aluminum ingots "is enough to constitute monopoly; it is doubtful whether 60% or 64% would be enough; and certainly 33% is not. . . ."

Though the Supreme Court endorsed Hand's ruling, the court also noted in a later case that there is, in effect, no "magic" percentage figure and that the importance of the percentage varies with the particular market. Hence, it is an open question how much less than 90% control would be monopoly.

• **Power Per Se**—What is more significant today about Judge Hand's Alcoa ruling and later Supreme Court rulings is what they say about monopoly power. Hand—supported by the Supreme Court in a 1946 case involving American Tobacco—said the Sherman Act is violated by the mere possession of monopoly power. It is not necessary, he added, to prove that a monopolist has actually exercised that power.

Critics have charged that the rulings do not literally mean what they say. Nevertheless, it is a fact of history that the same court antipathy to bigness runs through Sherman Act cases as far back as 1904.

It is also true that the antitrusters—Republican as well as Democratic—have failed to take advantage of the sweeping language in such rulings. They have continued to devote by far the largest part of their time to arguing the "exercise," not just the existence, of monopoly power.

• **Du Pont Ruling**—Against this background, some antitrust experts see real meaning in the Supreme Court's 1957 ruling on the du Pont-GM case. For the court clearly indicated it was against big business in declaring du Pont's acquisition of 23% of GM stock in 1917-19 violated the Clayton Act. The Clayton Act can prevent acquisition of stock or assets if the move might tend toward monopoly; the Sherman Act, by contrast, can only cure an already existing monopoly.

In the du Pont case, the government based its argument on the Sherman Act and included the Clayton Act only as an afterthought. At the time, it was thought that the Clayton Act, before it was amended in 1950, did not apply to a supplier-customer relationship such as du Pont and GM's. So the high court took all the experts by surprise when it rested its ruling on the Clayton Act.

To many observers, the old Clayton Act thus had been a "sleeping giant" all along. The court held the evil to be

that the largest chemical company in the world could control the largest manufacturing company—whether or not du Pont ever exercised that power.

• **Sherman Act Crossroads**—In the same manner, some observers think the Sherman Act could be a "sleeping Giant"—if the courts got a new crack at it.

It is in this sense that use of the Sherman Act to break up big business is at a crossroads: The antitrusters must consider whether the courts are really ready to look just at size and the power that flows from it. For example, would a court say General Motors is just too big, regardless of whether or not it has abused its power?

II. Prevention Before Cure

No matter how that question is answered—if it is ever asked—bigness as an antitrust issue will certainly hit many businessmen and companies with merger in mind.

On mergers, the weapon is Sec. 7 of the Clayton Act, as amended in 1950. In the hands of the Republican antitrusters, several dozen anti-merger cases are already being prosecuted, and a major application of the new law has been achieved—against a Bethlehem-Youngstown merger. The antitrusters are ready and willing to try to prevent further concentration in industries already heavily concentrated and to hold down concentration where it is not yet well advanced.

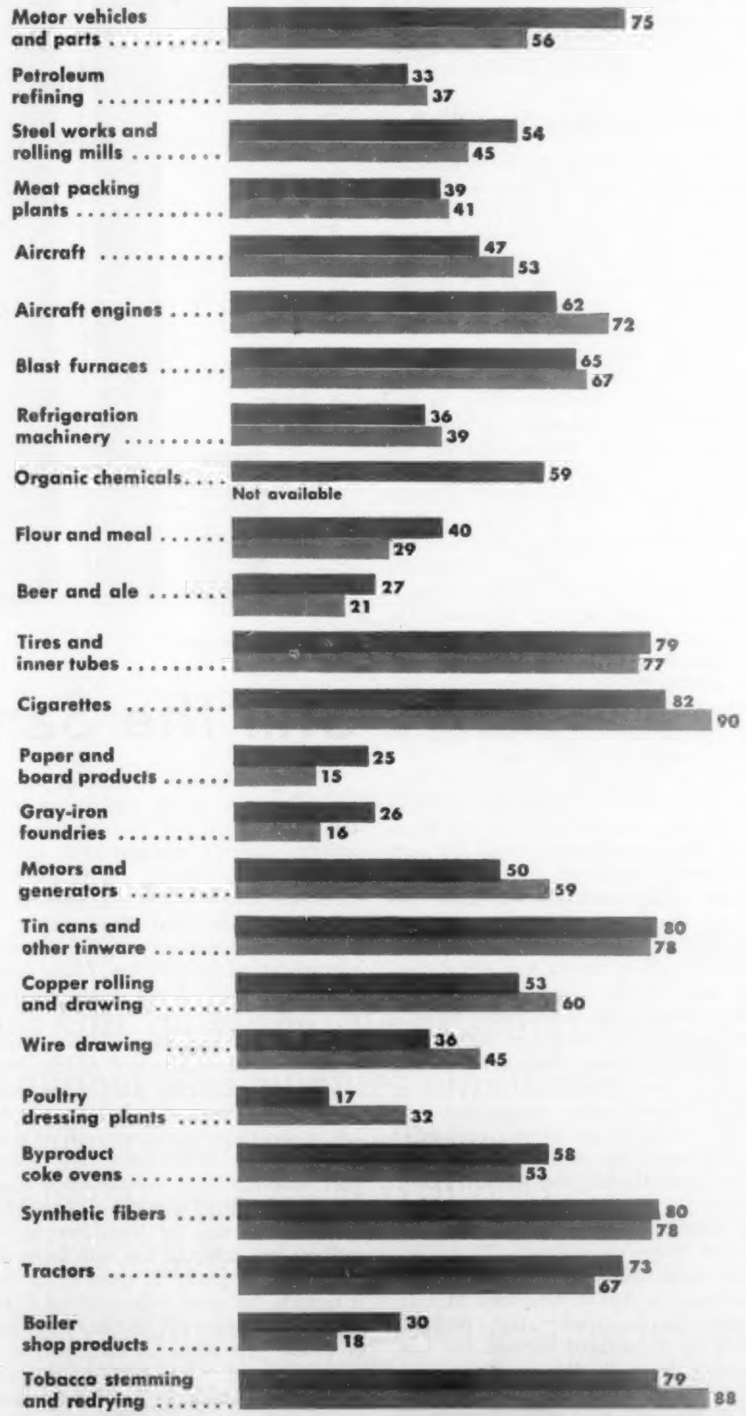
• **Tendency Enough**—There are several things to bear in mind about the antitrusters' powers on mergers. Congress intended the law to halt what economists call the long-term trend toward oligopoly. In oligopoly, a few sellers have the bulk of production or sales; this has come to be the case in more and more industries. The law does not require the antitrusters to prove creation of a monopoly—but only a tendency toward monopoly—to halt a merger. Thus, if a merger would eliminate a significant competitor, an important supplier, or a big customer, that may be all that the antitrusters need.

The anti-merger law can be effective. This is proved by the way the companies involved declined to appeal the Bethlehem-Youngstown steel case. The case challenging the merger, the trial, and the judge's decision all came within about two years after Bethlehem and Youngstown formally signed the merger agreement. This is much faster than the 10 to 12 years commonly used up in big monopoly cases under the Sherman Act.

• **Action in Time**—Furthermore, in combating size under the Clayton Act, the courts are asked to prevent a union before it happens or at least so soon

Government's-Eye View of Industrial Concentration

Percentage of shipments accounted for by four largest companies— in 1954 and in 1947



This is a sampling from an analysis prepared by the Bureau of the Census for the antitrust subcommittee of the Senate Judiciary Committee. Selections are limited to industries shipping over $1-billion and where the percentage is high or changed markedly during the period.

after a union that separation is still possible.

In the past, even when the government won a monopoly case, often a splitup did not follow. The courts have hesitated to break up a combination that long has been in existence. On the other hand, the courts seem to be convinced that companies can and, in provable cases, should be kept apart or divorced under the Clayton law.

III. Will Business Stay Big?

The historical record, more than any other factor, suggests there will be no broad-scale attempt by the Justice Dept. to break up existing companies under the Sherman Act. Preventing mergers is one thing; there will be plenty of antimerger cases. But atomizing industry is just not in the cards.

Vigorous enforcement of the Sherman Act in the past has not prevented the growth of big business. This is one reason Congress bolstered up the Clayton Act in 1950. But whether or not companies are now allowed to grow bigger through mergers, much of American industry is already big.

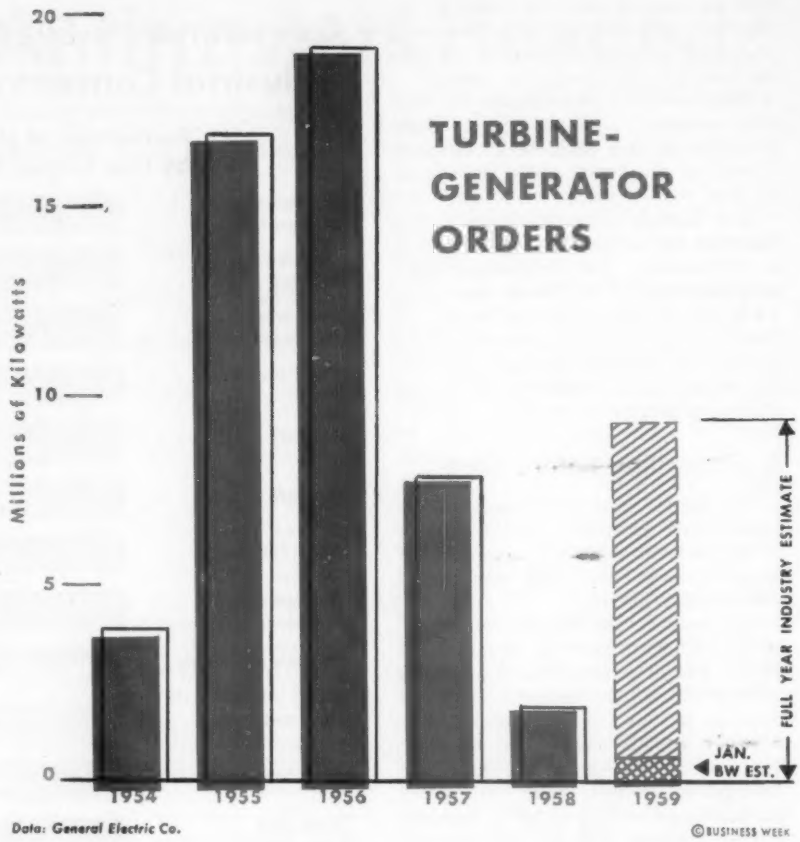
Concentration figures issued by Congressional committees are admittedly crude measures of what is happening in industry. They do not approach the refinement of market share figures as developed in an actual antitrust trial. But concentration figures are indicators. And many industries today show rather high percentages of business done by a few companies (table, page 31).

• **Fact of Life**—Does this mean that, even if antitrust could be used to break up existing companies, it should be so used? Most economists would call such a proposal fantastic and unrealistic. Bigness today probably has more defenders than critics. It can be shown that there is competition even in many industries where only a few sellers control most of the market.

• **Economists Shy**—Even some of those economists most concerned about concentration shy away from an antitrust program that would restore classical competition—if such competition ever existed. As Gardiner Means, economist who fathered the administered pricing theory, recently told the Kefauver committee: ". . . the degree of breakup that would be necessary seems to me just out of the question. . . ."

The same difficulty exists with proposals such as that of American Motors' George Romney—that big business should be encouraged through tax laws to subdivide itself after reaching a certain market size.

But the admitted difficulties don't mean that, once in a while, the antitrusters won't take on the very biggest company in an industry—like General Motors.



Still the Same Pattern

The considerable increase in the rate of orders for steam turbine-generator equipment makes it clear that electric utilities haven't changed their cyclical buying habits (chart). With 1959 little more than a month old, hurried calculations show that the utilities in January ordered power equipment with a capability of 600,000 kw. These orders amount to 30% of last year's lean total of 2-million kw.

• **High Expectations**—The power equipment manufacturers, which would much prefer a steady flow of orders to a cycle of two good ordering years followed by three poor ones (BW—Oct. 25'58,p112), nonetheless are happy that orders are on the upswing again. General Electric, which is forecasting an industry year of 9-million to 10-million kw., already has one order for a 200,000-kw unit. It confidently says it expects "as many orders closed in the first quarter as in all of the record low of 1958." As usual, in anticipation of a new wave of orders, it held a flurry of "proposition" talks with utilities, which traditionally produce a "fair percent of orders."

Westinghouse Electric Co. and Allis-Chalmers Mfg., who with GE turn out 95% of all turbine-generators, also report a rise in orders and a "better outlook for power generation."

• **Well-Established Trends**—The rise in ordering comes as no surprise. The cyclical pattern of ordering seems to be a well-established postwar trend. And the utilities' splurges in ordering new equipment generally coincide with peaks in the national economy, while orders fall sharply during an economic lull. This is probably explained by the fact that utilities must lay out $4 for capital assets to add $1 to their gross. That makes them cautious about planning and committing capital for new capacity during a downturn, and makes them rush in with new orders when they feel certain that demand for power is on the rise.

This system, of course, makes life difficult for the equipment makers, whose staff and equipment are subjected to wide fluctuations in production. A steady flow in orders, they say, would make it easier for them to hold the line on prices, and avoid delivery delays that jammed peaks of ordering inevitably produce. Despite a "buy now" campaign by turbine makers, a number of key utilities plan no purchases this year because "facilities" outstrip power need.

New Rules for Military Buying

They're likely to come out of debate in Congress and the Pentagon over trend toward bigger defense orders with big contractors. The small business bloc is upset.

The Defense Dept.—the nation's No. 1 buyer of goods and services—will award close to $25-billion worth of contracts this year for production, research, construction, and other work.

It's been racking up similar totals, year after year, for a long time. But in recent years, the advent of Nuclear-Space Age weapons has generated a major shift in the nature of defense business: Heavy-volume production of an item is becoming less frequent. Instead, the stress is on the complex, costly new weapons—ICBMs, IRBMs, atomic subs, radar fences, and the like—in relatively small quantity.

Giants in the munitions business—Boeing, General Dynamics, GE, Lockheed, United Aircraft, AT&T, North American Aviation, and such—have moved in with the brainpower and massive facilities to grab the biggest chunks of the new business.

• **Concentration**—As volume per unit shrinks, arms makers tend to keep as much work as possible in their own plants and to subcontract less production to smaller firms. All these changes have brought cries of anguish from businessmen who now find themselves on the short end of the stick.

As a result, military procurement officials and their leading contractors are going to spend more and more of their time telling Congressional committees why they do business the way they do.

There's no doubt about the trend:

The increasing concentration of prime contract awards among a few big producers. In its most recent compilation, the Defense Dept. shows that 74.2% of prime contracts were grabbed by the 100 leading defense suppliers and the top 20 had 52.7%. The previous compilation showed the top 20 had 45.5%.

The growing trend toward contracting through negotiated procurement rather than through formal advertised bidding. Roughly 85% of defense orders are now negotiated, although the law prescribes formal advertised bidding as the rule and theoretically allows negotiated buying only as an exception.

Small business' decreasing share of the defense procurement dollar in both prime contracts and subcontracts. Small contractors accounted for 17.1% of military procurement spending in fiscal 1958, compared with 19.8% in the previous year.

In essence, these issues reflect an inherent conflict in defense procurement objectives:

• The aim to reduce lead times on weapon development projects by streamlining contracting procedures and concentrating responsibilities in one "weapon system" contractor.

• Washington's traditional political bias in favor of spreading defense business as widely as possible.

I. Solution by Law

To resolve this conflict, Sen. Leverett Saltonstall (R-Mass.) is pushing a measure that would make it easier for the military services (1) to award negotiated contracts and (2) to extend the use of weapon system management as a means of strengthening prime contractors' responsibilities.

For the most part, defense producers are backing the bill. But Washington's small business proponents are suspicious of its stress on weapon system management. There's criticism that this tends to concentrate defense orders and to put the squeeze on smaller firms.

Saltonstall has a provision to take the edge off such objections: tighter requirements on the award of military subcontracts to small companies.

• **Defense Reaction**—The Defense Dept. has yet to comment officially on Saltonstall's bill. Officials feel they already have about as much leeway as they need. And some officials are dubious of the bill's emphasis on greater centralization of project responsibilities. Says one official: "The bill would require an Adm. Rickover for every major project."

The critics also argue that the bill's small business provisions are unworkable and are inconsistent with its intent to encourage the use of weapon system management.

• **Questions in Congress**—The bill faces tough sledding in Congress. It flies in the face of the House Armed Services Committee's traditional clamor to spread defense business among greater numbers of contractors—notably by means of formal advertising.

Indeed, the group's investigating subcommittee, under Rep. F. Edward Hebert (D-La.), plans to investigate the trend toward weapon system management and the growing volume of negotiated procurement.

The weapon system concept is also under fire from the House Military Operations subcommittee headed by Rep. Chet Holifield (D-Calif.). Last week, it began an investigation of the multibillion-dollar ballistic missile program.

A key issue: whether Thompson Ramo Wooldridge, Inc., has had a competitive advantage in bidding for hardware production. Its affiliate, Space Technology Laboratories, is the Air Force's system engineering contractor for the Atlas, Titan, Thor, and Minuteman missiles.

II. Proposed New Rules

While the politicking is under way on Capitol Hill, the Pentagon is working on two important changes in armed services procurement regulations that will require no Congressional approval.

First is a new set of rules spelling out the types of costs that the government will allow on defense contracts. Approval of the new rules has been held up for at least a year by objections from defense industry representatives. A final decision is expected this spring.

• **Clarification**—The Pentagon's objective in revamping its "cost principles" is to clarify a very fuzzy area in procurement regulations and to set uniform policies for the three services.

As the Pentagon sees it, the new rules will be "a liberalization of the status quo." But industry critics consider the effect to be just the opposite.

On the liberalizing side, the changes would allow as reimbursable costs (1) executive bonuses and other special employee compensation related to profits, and (2) training and education costs. Right now, there's no fixed rule on such cost allowances, but claims for reimbursement are generally refused.

Industry's big objection centers on the proposed application of the itemized cost rules to both the cost-reimbursement type of contract and the type of fixed-price contract in which costs are a factor in negotiation—contracts with price redetermination or incentive clauses.

At present, fixed-price contracts are not generally subjected to a detailed review of costs.

• **Subcontracting**—The Pentagon's second proposed change in procurement regulations deals with (1) the determination of which items a prime contractor should make in his own plant and which he should buy from a subcontractor, and (2) review and approval of subcontractors selected by the prime contractor.

The outlook is that the Defense Dept. will incorporate the Air Force's policy on these points in the over-all Pentagon procurement regulations.

In Business

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AEC Policy Veers Toward Helping Utilities Build Power Reactors

Administration policy on development of civilian nuclear power reactors is changing markedly.

The Atomic Energy Commission is now thinking of subsidizing construction of prototype reactors by private utilities; in the past it would pay only for some research and development costs.

AEC, backed by the utilities, has steadily resisted Congressional demands that it build experimental reactors without industry participation. But the utilities are now thawing toward the "incremental cost" concept, under pressure of rising construction costs and the possibility that Congress may vote a big reactor program. In this concept, AEC would pay most of the differential between cost of a conventional and a nuclear plant.

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U.S. Court Approves New Haven RR Deal To Buy Stock From Investment Group

A federal district court this week dismissed the Interstate Commerce Commission's suit to invalidate a 1955 contract between the New Haven RR and a group of investment bankers (BW–Nov.22'58,p38). Under the deal, **the New Haven by December must buy 131,385 of its preferred shares from the investment group at $75 per share,** about $50 above the current market.

ICC, which labeled the deal an "issuance of securities" or "other evidence of indebtedness" made without the required ICC approval, says it will appeal. The New Haven, facing a $10-million outlay it can ill afford, says only, "We are pleased that the contract is valid and legal." The investment bankers say it's "too early" to know whether they will press for payment.

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Canada's Arctic Islands Await Rush of Oil Prospectors in Spring

A new oil rush is cooking up for next spring in Canada's remote Arctic archipelago. Ten major companies—U.S. and Canadian—have already applied for development permits covering 60-million acres in the area from Banks Island east to Baffin Island and north to Ellesmere Island.

The Island permits are being held up while the government revises its gas and oil regulations for the Arctic; in the Northwest Territories and the Yukon, permits have already been issued covering 76-million acres.

Meanwhile, the companies are lining up men and equipment for a rush in the spring, when the permits are expected to be issued on a first-come first-served basis.

New Shine on Business Crystal Ball; Truckers Give Weekly Loading Rates

Business forecasters were handed a brand-new indicator this week when American Trucking Assns., Inc., issued the first of its weekly surveys of truckloadings at major terminals.

The survey, quietly test run for a year at 400 major terminals, will report each Thursday the percentage change in the previous week from the week before that and the year-before figure. Although the survey gives only percentages and not tonnages, forecasters think it may be helpful in spotting changes in business activity, especially in nondurables.

In the past, percentage figures have been issued, somewhat tardily and on a month-by-month basis.

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Business Briefs

Sperry & Hutchinson, major trading stamp company, plans a court challenge to **Wyoming's new law barring the stamps outright.** Wyoming is the only state with a flat ban on stamps, though Kansas, in effect, killed them with a heavy tax, while Wisconsin and Washington drove them out by requiring that they be redeemed in cash.

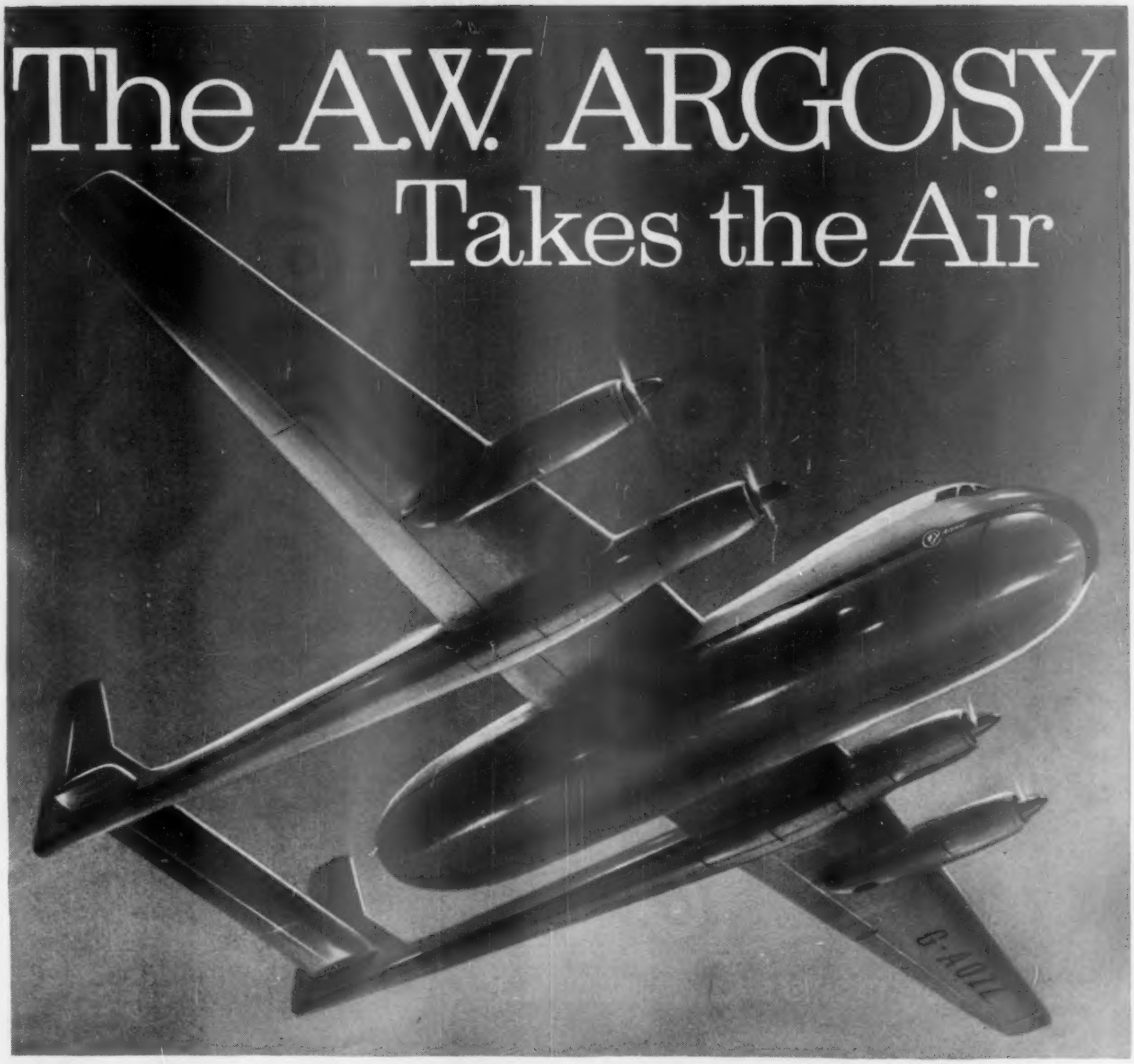
Purchasing Week, a McGraw-Hill publication, asked a wide sampling of industrial purchasing agents whether they had personal knowledge of the use of prostitutes in drumming up orders, as reported on a CBS panel show moderated by Edward R. Murrow. About a quarter of the executives who answered said that they had heard of such cases, at first or second hand; the rest replied with an indignant "no."

Paychecks in Massachusetts shrank inordinately this week as **the state's income tax went on a withholding basis.** Deductions will be double until Apr. 1, to make up for the non-withheld weeks since Jan. 1; and the battered taxpayers will get no 1958 forgiveness, as New Yorkers will under present plans. It's a tough bite; the flat rate in Massachusetts is 3% on earned income, on investment return it averages 7.38%. Employers will get a cut on the tax, to help cover costs of collection.

The Senate Antitrust & Monopoly subcommittee starts hearings next week on **bills that would forbid auto makers to finance and insure their cars.** Aim of the bills: to keep Ford from its announced entry into financing and to force General Motors to give up GMAC.

Two joint chemical-oil company ventures were set up this week. **Standard Oil Co. (Ohio)** and **Atlas Powder Co.** formed Solar Nitrogen Chemicals, Inc. **American Viscose Corp.** and **Sun Oil Co.** set up Avisun Corp. as a supplier of polypropylene, a very light plastic of exceptional toughness and structural strength.

Pittsburgh Steel Co. this week introduced a fairly spectacular new product—patterned sheet—in a fairly spectacular application—the exterior shell for Westinghouse Electric's new line of laundry equipment.



HAWKER SIDDELEY BREAKS PRODUCTION RECORDS WITH NEW AIR FREIGHTERCOACH, FROM "GO AHEAD" TO FIRST FLIGHT IN 28 MONTHS

The Armstrong Whitworth Argosy is the world's first pressurised turboprop freighter-coach. Never before in Britain has such a large and complex aircraft made its first flight so soon after the decision to go ahead —only 28 months. This is further proof of Hawker Siddeley's unrivalled reputation in the British aircraft industry, not only for high quality craftsmanship, but ability to meet and beat production schedules. The Argosy ushers in a new era of "flying without frills". It offers 300 m.p.h. economical air transport for freight and coach-class passengers. With its capacity for 13½ short tons, full-width doors and quick-loading system, it reduces turn-around time and freight rates to a minimum. The Argosy can be in service on the world's air routes by 1960.

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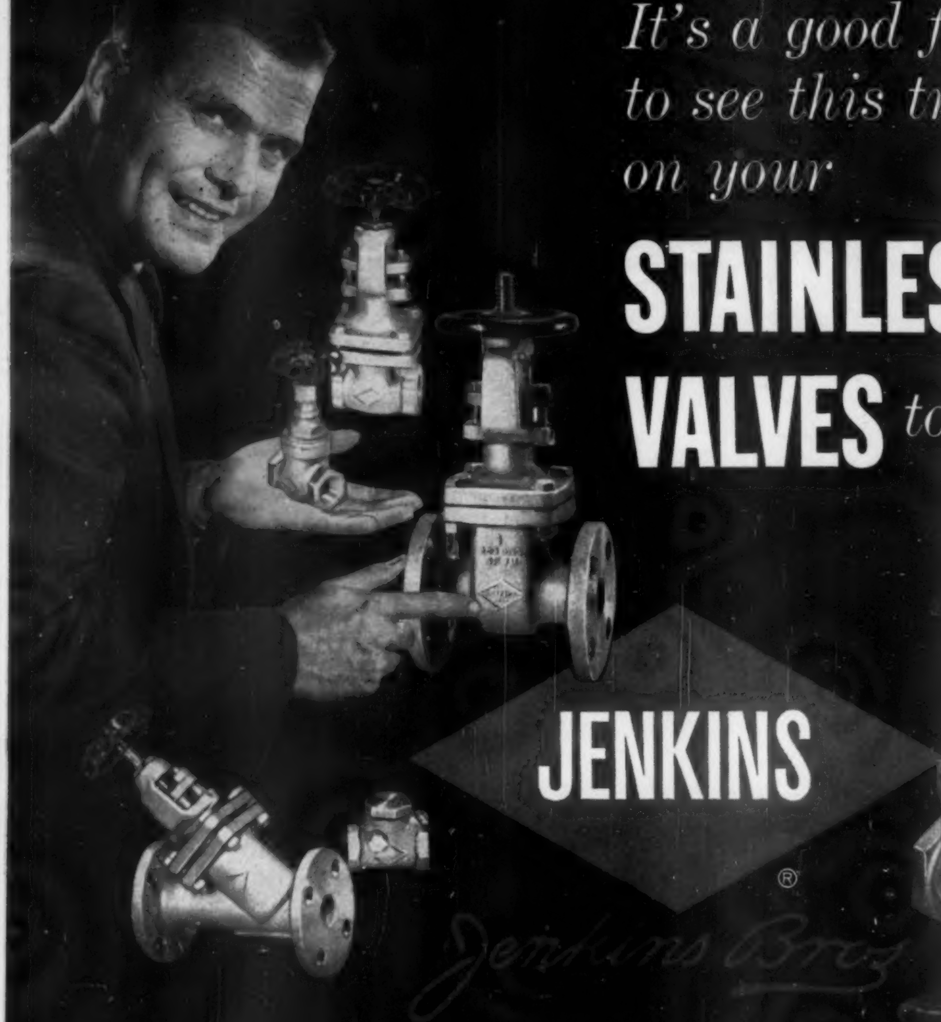

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WASHINGTON OUTLOOK

WASHINGTON
BUREAU
FEB. 21, 1959

A BUSINESS WEEK
SERVICE

Pres. Eisenhower's advisers are rewriting the budget.

This will not be advertised; no formal revision will be sent to Congress. But changes are being made—changes important to both businessmen and investors.

Big change is in corporation tax revenue. Earlier estimates of corporate profits are being raised.

Here are the important statistics. When the budget was prepared in December, the calculation was that corporations would earn profits of some $47-billion in this calendar year—the 12 months starting Jan. 1. This would give the tax collectors a take of $21.5-billion.

The new estimate is that profits will exceed this figure—hit about $50-billion.

The implication is $1.5-billion more revenue than originally estimated. This could, on paper, turn Eisenhower's little $100-million surplus into something big. Prospects are that it won't.

Here is what you come down to:

Eisenhower stands to gain from corporate profits.

But Congress will cost him just about as much in refusals—refusals to increase the gasoline tax from 3¢ to 4½¢ per gal., to raise postal rates a total of $350-million, and to levy a 4½¢-a-gal. tax on jet fuels.

So a standoff develops—Eisenhower wanting to cushion a paper-thin budget balance, the Democrats being tempted to increase spending.

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Note the budget nit-picking, from the Democratic side. The fact is that both House Speaker Rayburn and Senate Leader Johnson are sensitive to charges of fiscal irresponsibility. Both are out to show that the Eisenhower economy budget includes luxury items for the top brass.

Here are examples that will make front page news:

The federal bureaucracy is growing. Democrats elicited from Budget Director Stans the information that the fiscal 1960 budget provides a net increase of 35,659 new civilian jobs in government—meaning a total federal payroll of 2,412,000 civilians in the coming year.

Plush, junket-type jet planes. Sen. Mike Monroney, stung by attacks on his big-spending airport aid bill, is raising cain about some $77-million worth of VIP jets for high-ranking military brass and top-drawer officials from the executive branch.

An unpublished Senate staff report takes a different tack. It puts the budgetary balance down as questionable on 16 different, iffy counts—such things as if Congress doesn't raise the gasoline tax, or if personal income doesn't rise to expected levels, or if farm price support costs don't decline for the year. If all 16 propositions should go adversely, the report concludes, Eisenhower could wind up with a $13-billion deficit for fiscal 1960, instead of a slight surplus.

WASHINGTON OUTLOOK (Continued)

WASHINGTON BUREAU
FEB. 21, 1959

Where does the public stand in the fight against big spending?

Congressional mail is picking up, but it is not heavy despite Eisenhower's appeal for public support. So far, for example, it doesn't even approach the grass-roots outpouring on the same topic a couple years back.

One reason Congress isn't worried yet: The anti-spending mail is still outweighed by the "gimme" letters.

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Washington is in a sweat on labor legislation. Both the Administration and Democratic Congressional leaders would like to get through a new law putting up stricter barriers against racketeering and corruption. Success of such a bill has been predicted from both camps. But more extreme groups from both sides aren't easily satisfied.

The AFL-CIO executive council formally opposes any reform legislation that does not also include some of the softening of the Taft-Hartley law that unions have been wanting for years.

More demanding business groups are insisting on stricter labor controls than is provided in the Kennedy Bill, which has gathered a lot of support. Sen. John F. Kennedy (D-Mass.) and Labor Secy. Mitchell are caught in the middle. Labor leaders will give in, take the reform bill alone if necessary—but reports to Washington from the AFL-CIO meeting in San Juan indicate they think such a retreat won't be necessary.

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The veteran pension issue is getting warm.

Congress is under heavy pressure from veteran organizations, especially from Veterans of World War I of the U. S. A.—a new, little-known outfit that demands $100 a month for all World War I veterans, with no strings attached.

Eisenhower will join the fight. An Administration bill, drawn up but not yet submitted to Congress, proposes gearing veteran pensions strictly to an individual's financial need. It will offer bigger payments to the needy, while making it more difficult for other veterans to get on the pension rolls in the future.

The House probably will pass some such bill. But the going is tougher on these matters in the Senate. The Eisenhower plan would cost more, up to $100-million annually, for the next four years or so. But statisticians say the plan would bring reductions within five years and long-haul savings running into the billions.

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A Democratic Party fight about the 1960 convention site will be finally settled next weekend by the Democratic National Committee.

Los Angeles, already the tentative choice, will be confirmed. Gov. David Lawrence of Pennsylvania is still trying to grab the convention for Philadelphia, and boss **Jake Arvey** of Illinois still hopes to lure the Democrats to Chicago. They're joined by New York's Carmine De Sapio, who will settle for just about anywhere but Los Angeles.

Republicans, still shopping, lean heavily to Chicago for their 1960 show—the 100th anniversary of Abraham Lincoln's nomination there.

Report No. I on the New Economics of

REYNOLDS WRAP ALUMINUM PACKAGING

To the consumer, these three items spell *convenience* . . . just spread the bread and heat the Tray Dinner. But to the businessman they tell a great story of sales success with Reynolds Wrap Aluminum Packaging. They prove that the *eye-catching gleam* of aluminum sells itself in refrigerator and freezer cabinets as well as on the shelf. And they demonstrate the unequaled *protection* of this packaging . . . against moisture loss, light and odors.

Most important, they illustrate the New Economics of Reynolds Wrap Aluminum Packaging. Today, when overall marketing expense has increased so greatly, this step-to-the-top in display and protection stands out as lower than ever in *relative* cost . . . and higher than ever in return on investment. Whether your product is a specialty like a frozen dinner or a staple like bread, let us show you how the New Economics apply . . . and also bring you data from a new study: "The Image of Aluminum Foil." Call any Reynolds sales office or write Reynolds Metals Company, Richmond 18, Va.

Watch Reynolds new TV shows "Walt Disney Presents" and "All Star Golf" every week on ABC-TV.

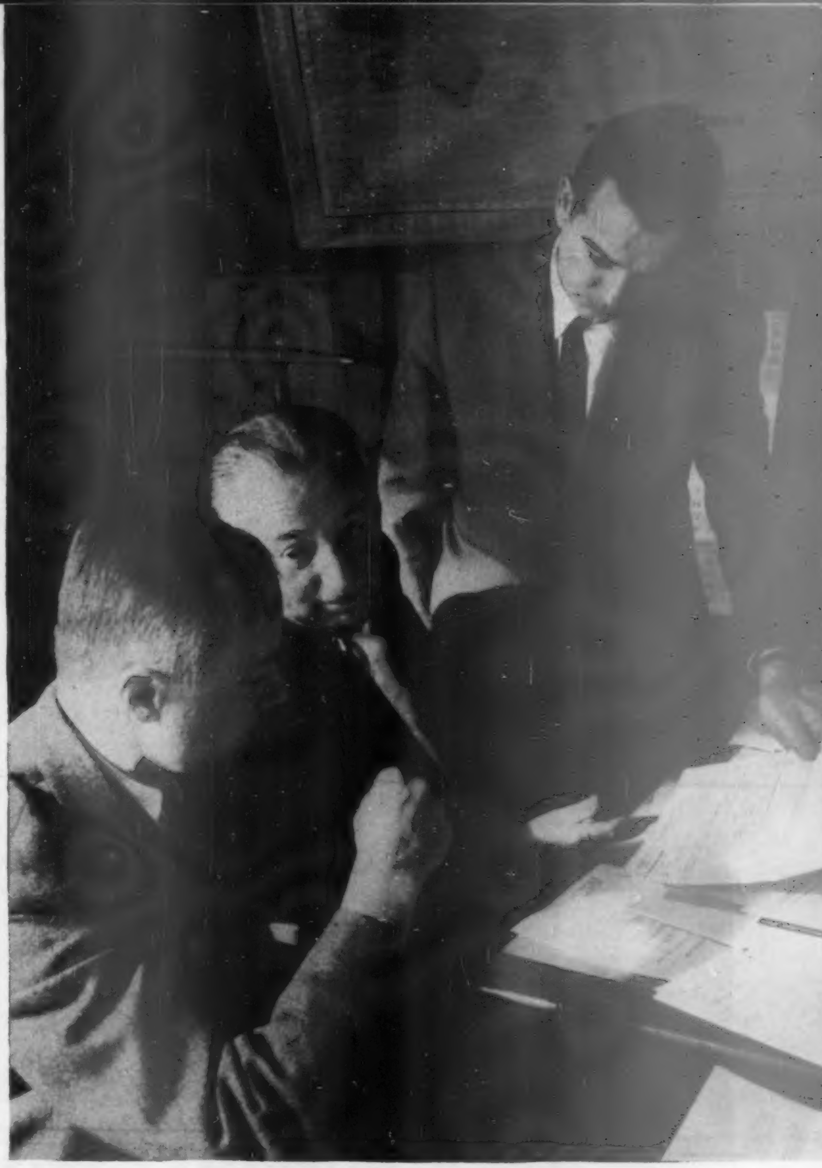
BRAND POWER *PLUS!*

Investment in aluminum foil packaging is the biggest bargain in the whole range of marketing. BUT USE OF THE REYNOLDS WRAP ALUMINUM PACKAGING SEAL IS A BIGGER BARGAIN STILL . . . *IT'S FREE!* Surveys show 8 out of 10 women know this Seal. 7 out of 10 of these prefer products carrying it. Remember, your Brand Power is big, but this is Brand Power *Plus!*

There are more Royal Typewriters in office use than any other make.

Watkins: "Simplex has always been a family affair; now it's going to be a big family affair."

"This will be a real shot in the arm for a town that has been going downhill for years."



CURTIS WATKINS, Simplex head, confers at right with IBM representatives on merger.

When Little One Swallows Big

Simplex Time Recorder gets some digestion problems when it bites off IBM's Time Equipment Div. in expansion move.

About 150 ex-IBM salesmen are checking into Gardner, Mass., this week to help put the finishing touches on a merger with a reverse twist. The process started late last year when Simplex Time Recorder Co. absorbed the Time Equipment Div. of International Business Machines Corp. The twist: It was the smaller outfit that swallowed the larger. Simplex' 1958 sales were $6-million, compared to about $24-million for the IBM division.

The man who will greet the salesmen and tell them where they fit into the new organization is Simplex' president, Curtis G. Watkins (pictures). If he lives up to his reputation, he'll likely get right down to his shirt sleeves and tell his new salesmen he expects them to push Simplex into a position of dominance in the industry and keep it there.

• **Biggest**—Already—now that he has taken over his biggest rival—Watkins has made Simplex the biggest specialized time equipment company. And the combined products of the two former rivals—time clocks, stampers, office clocks, and a wide range of time and recording devices—give Watkins the widest product line in the field, both in applications and price.

But the boundaries of the field are so vague, and so many companies have a piece of it—both small companies specializing in it and large companies with some time equipment lines—that nobody quite agrees on pinning down the industry's over-all size or on what would now constitute a dominant position. Such products as time clocks, stampers, and office clocks are easy to classify, but it's hard to find any agreement on where the line comes on "other time and recording devices."

Simplex' two chief competitors, though—now that it has IBM's division under its belt—are Cincinnati Time Recorder Co., and Stromberg Time Corp., a subsidiary of General Time Corp. They don't compare with Simplex' new size, however; Stromberg's time equipment sales in the good year of 1957, for example, came to $3-million.

• **Financial Veil**—Both Simplex and IBM are closemouthed about the financial details of the merger. IBM officials bow out by saying that since Simplex

is the surviving outfit, any mouth-opening is up to Watkins. And as far as Watkins is concerned: "It's nobody's business. We just won't talk about it." Watkins does insist, however, that he still owns all the Simplex stock, hasn't pledged any, and hasn't used outside financing of any kind.

• **Lifelong Aim**—Though the dollars-and-cents aspects of the 31-page merger agreement are obscure, it's no secret why the two sides got together.

For Watkins, the merger fulfills a "lifelong ambition." Besides that, he expects Simplex' expansion to give a lasting boost to his home town. For Gardner has been badly hurt by the exodus of industry from New England.

Since he took over the 57-year-old company from his father in 1942, Watkins has been driving to keep it growing. While many of his rivals were getting into trouble or diversifying themselves out of the business, Simplex remained a specialist, kept expanding by opening new offices, starting a foreign subsidiary in Trinidad, and picking up new related products.

Finally, with Simplex in the No. 2 spot in the industry, IBM's Time Equipment Div. became Watkins' natural next target. The idea was not new. Watkins' father had approached the late Thomas J. Watson, Sr., IBM's founder and long-time president, but nothing ever jelled. But Curtis Watkins' pitch to IBM's current president, Thomas Watson, Jr., found a willing listener. IBM was ready to get out of the time equipment business.

• **Point of View**—IBM's reasons for giving up a profitable division were summed up by Watson in a letter to IBM stockholders. "The evolution of our product," he said, "has resulted in our time equipment becoming less and less compatible with our other operations." Or, as another IBM officer put it, "IBM is now interested in system selling, not hardware selling."

From giant IBM's point of view, time equipment didn't look the same as it did to small, specialized Simplex. To Watkins, it's a field in which his company can grow, biting off an ever bigger slice of the market. To IBM, it didn't have sufficient growth possibilities compared to the booming expansion of data processing and computers. Sales of such equipment as time clocks and bell systems were tied to slower expansion of factories and schools. And the Time Equipment Div. accounted for only 3% of IBM's $1-billion yearly sales.

That was one reason why the division was "hampered by a lack of top management interest and work," according to T. Vincent Learson, an IBM vice-president whose responsibilities included the division. To keep it running properly would have taken more than 3% of top management's time and

effort—and, says Learson, "We couldn't let the tail wag the dog."

Another stumbling block for the division has been IBM's one-price policy. Deals on prices are a common practice in the time equipment industry—but IBM salesmen had to steer clear of such deals for fear of hurting the pricing of other IBM equipment.

• **Quick Response**—So when Curt Watkins suggested early in 1958 that IBM had outgrown time equipment and he wanted the division, the response was favorable. By December, Simplex got title to all IBM patents on time equipment, and took over various important segments of the IBM division except the Service Dept. IBM promises to keep servicing as long as its old customers want it to, but Simplex expects to "grow into" this business.

• **Digestive Problems**—When a smaller company swallows a big one whole, there are bound to be some problems of digestion. Watkin's problems along this line concern two things: an IBM sales force more than twice the size of Simplex' premerger force, and the absorption of a $24-million a year production.

Simplex is not taking over the IBM plant at Endicott, N. Y., but does get IBM's production plans and machines—about 60 machines are being transferred from Endicott to a new Simplex building just completed in Gardner. Simplex also got at least three months of IBM's usual production, for inventory; Watkins likes to call this "the biggest order IBM ever got."

What makes digesting IBM's production easier than it might have been is the fact that IBM has been subcontracting a great many of its parts. Simplex will continue these subcontracts. Eventually, it aims at producing the parts itself—and the new plant was built with this expansion in mind.

• **Sales Merger**—The most important asset of the Time Equipment Div., besides its products, was its sales force of 220 men spotted throughout the country. Assimilation of 150 of these men into Simplex' 100-man sales organization was perhaps the most difficult part of the merger.

On Oct. 24 last year, Pres. Watson announced the merger to IBM time equipment salesmen over a closed circuit TV hookup; other IBM employees heard the message by special radio. Employees of both companies got something of a surprise—but this time, for a change, it was the employees of the larger company who worried most. Simplex admits most IBM men felt at first they had been "sold out." But both managements were ready with a sales pitch for the salesmen.

IBM told them they could either stay with IBM, switching to another division, or go to Simplex and remain in

the field they knew best. About 60 of the younger men stayed with IBM.

Watkins' persuader was simpler: He told the IBM men they'd make more money with Simplex. He feels the men he's getting are the ones he wanted —the older men who have more contacts.

• **Question of Titles**—Assigning supervisory positions and titles was even more touchy. Watkins split the spoils as evenly as possible. Paul Wells, former general manager of the Time Equipment Div., became Simplex vice-president in charge of sales. Then the country was cut up into four districts, with two managers coming from IBM, two from Simplex.

Where there was an overlapping of area managers, Watkins usually split the line into industrial applications—time clocks, time stampers, and watchmen's clocks—and institutional products such as synchronized master-slave clocks and bell systems.

• **Different Ways**—Beyond such organizational matters, there's the matter of getting "fringe"-conscious big-company men used to the less expansive ways of a smaller company. IBM salesmen—previously on salary plus commission—will be paid off by IBM for any credits already earned, either as commission or severance pay, whichever is greater. But the next money they get will come from straight commissions. Simplex Vice-Pres. William Pinkham says his men "prefer straight commission because they earn more that way."

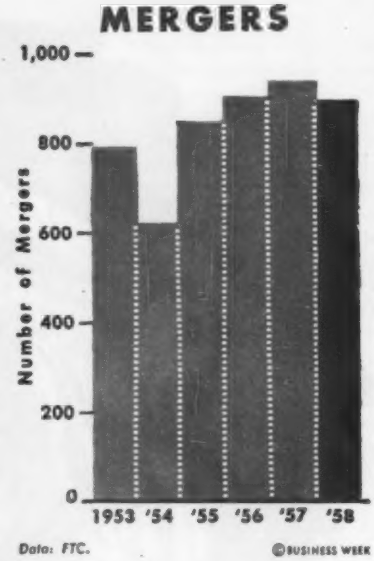
It would be next to impossible for any small company to match IBM's long list of non-salary benefits, but Simplex is trying to give the most important ones. That, in turn, will mean extras for the old Simplex men.

Simplex will duplicate the life insurance protection the IBM men have had, and they will retain retirement credits already earned in IBM's pension trust fund. Watkins is planning a similar pension fund for his company.

Not all the differences are financial. Simplex considers itself a "sales organization and not a prestige company like IBM," and disdains such perquisites as 2-in. carpets on the floor. IBM men will have to adjust to the informality and shirtsleeve atmosphere, the habit of calling Watkins, "Curt"—and the lack of even one THINK sign.

• **Personal**—For Watkins, who has always tried to keep personal contact with his sales force, the merger poses a special problem. He just won't be able to keep close tabs on so many men. It also seems that Simplex will have to make some real changes in operating procedures to keep track of things.

It's too early to tell how successful the swallowing act will be. But Watkins is confident he hasn't taken too big a mouthful, and that Simplex won't lose the personal touch. END



No Ebb Tide, But Just a Lull

The 1958 drop in the number of U. S. mergers, as compiled by the Federal Trade Commission and shown graphically in the chart above, has raised a question among the trend-spotters: Is the merger mania of the 1950s on the wane at last?

The answer, according to merger experts canvassed by BUSINESS WEEK, is: probably not, as far as any over-all decline of the merger impulse is concerned. But the experts spot a number of changes in trends and types of merger activity—changes that have brought a lull in mergers in some fields, at the same time that they stir new merger impulses elsewhere.

Here's what they find:

• Horizontal mergers are losing popularity to vertical combinations.

• The fields that have witnessed a number of mergers recently—chemicals, cosmetics, pharmaceuticals—have settled down. But you can look for a flare-up of activity in other industries, such as lumber and printing, and in such services as management consulting and banking.

• Transatlantic marriages are on the upswing, prodded by the need for U. S. companies to establish an entry in the Common Market. Usually the merger is with an existing licensee. The supply of suitable partners, however, seems limited.

• The size of companies involved may be shrinking.

• **Government's Frown**—Poke into the factors behind any of these trends, and you're likely to find the government's

attitude on antitrust involved somewhere. And now Congress seems ready to add this year a new antitrust weapon —a bill requiring pre-merger notification. This would require the parties to a proposed union to give the FTC and Attorney General 60 days advance notice.

Such a law would close one loophole that may account for part of the 1958 drop. FTC now compiles its merger figures by totting up mergers recorded in financial and trade publications. Several merger-minded companies, mistrusting Washington's antitrust fever, admit they have kept recent mergers quiet, hoping to avoid FTC notice.

Washington's antitrust bellicosity, and notably the "bigness is badness" slant implicit in Justice Dept.'s current moves aimed at General Motors and West Coast steel suppliers (BW—Feb. 14'58,p32), not only inhibit mergers but reshape their form. Horizontal mergers, which most obviously swell a company's size in one field, give way to a flourishing of the less obvious—the acquisition of a supplier or customer.

• **Competition**—Of course, you can't attribute this solely to the government. Citing current merger flurries in aluminum pie plates and lumber products, Charles Granger of William E. Hill & Co., management consultants, notes: "When one company buys up a customer, it acquires a captive market and sparks a swift reaction on the part of competitors to protect their share of the market by similar acquisitions." There's a lot more of this sort of thing, he adds, during and after a recession.

Competition provides the spur, too, in many moves toward industry concentration. Management consultants are currently eying each other warily to see who will touch off a threatened spate of mergers that might end up with a few nationwide firms each offering a full line of consulting services. Advertising is in the throes of a similar growth process. New York banking seems on the verge of a new round of concentration—and possibly of branching out into the hinterland under a proposed more lenient state law.

• **Finding "Prospects"**—Most experts agree that the number of medium-sized family-owned situations has dwindled, and merger seekers now dicker over companies two-thirds or half the size of those they once went after. But the smaller ones are in good supply, and the recession has "driven down the asking price."

Most of the experts profess to see a diminution of "raider-type" mergers. But one less optimistic source points out that most stocks vulnerable to raiding—where market value is significantly below book value—haven't participated in the 1958 market rise—and so look "all the better to raiders." END

DOW | **Industry's chemicals:**

WHAT'S MAKING NEWS?

The biggest news in industrial chemistry hasn't been released yet—because it hasn't been made. But it may be tomorrow! And you may preview it here. Research chemists across the country are working on new processes and products which will have vital significance to profit-minded manufacturers. These messages are designed to keep you abreast of the facts by presenting them in easily read form.

You may wish to check certain items in this advertisement and forward to those concerned in your company.

ROUTE TO:

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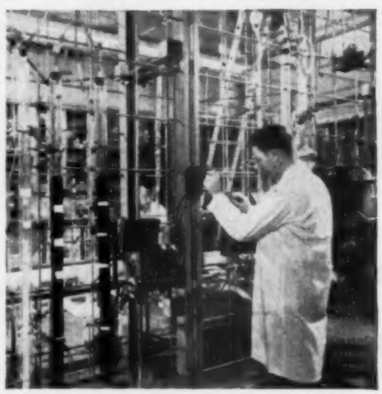
UNUSUAL "EXCHANGE" CHEMICAL SUBSTITUTES PROFITS FOR PROBLEMS

Ion exchange resins have been performing chemical miracles for years—chiefly in that familiar household tool, the home water softener. But scientists know that the real potential of ion exchange has scarcely been touched. Research men at Dow feel that, within a few years, at least half the ion exchange resins produced will be used in fields other than water treatment.

The principle of ion exchange has, of course, been known to chemists for many years. Stated simply, the resins merely trade ions — tiny electrically charged particles—for ions of a different type whenever they come in contact with them. In water softening, calcium and magnesium ions, which make water hard, are removed by passing the water through a bed of resin such as Dow's widely used Dowex®. Troublesome magnesium and calcium ions are traded for harmless sodium ions.

The future of ion exchange chemistry is as broad as the imaginations of thousands of research chemists. Its applications are almost limitless. One of the most interesting is in the separation of a relatively unexplored group of elements known as "rare earths". This group (e.g. terbium, samarium and yttrium) constitutes nearly one fifth of all the known elements but has been largely ignored by chemists in the past because the extreme similarity of its members made it almost impossible to separate one from another. Recently, great strides have been made in this field, using the ion exchange principle. As a result, you will hear much more of the rare earths and their useful possibilities in the years ahead.



Constant laboratory research has led Dow to many ion exchange resin improvements in recent years.

In more immediate commercial use, ion exchange resins are widely used in the removal and concentration of uranium from ore which has been leached in an acid solution.

Medically, the process is used to remove calcium from blood by exchanging it for sodium in the resin. Since blood must have calcium to clot, this is an ideal method of preventing clotting when it is medically undesirable, as in the drawing of blood for transfusions.

In the isolation of amino acids (widely used in animal feed supple-

DOW CHEMICALS BASIC TO INDUSTRY

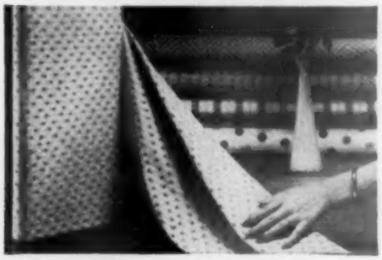
Glycols, Glycol Ether • Amines and Alkylene Oxides

Benzene Derivatives • Inorganic Chlorides • Alkalies and Halogens

Solvents • Germicides • Fungicides • Herbicides • Fumigants

Hundreds of other Chemicals • Plastics • Magnesium

ments), in the decontamination of chromic acid solutions during the plating process, and in a thousand other ways ion exchange resins are proving their worth. The ion exchange process, according to Dow, is rapidly joining the ranks of distillation, evaporation, and crystallization as an established unit process. Ion exchange resins are useful in isolating materials, classifying them, and also as catalytic agents.



REMARKABLE DYE SOLVENT
gives fabrics brighter, faster colors

Many textile manufacturers are receiving excellent performance from a new dye solvent recently put on the market by Dow. Dowanol DE-SG, one of the many Dowanol® compounds (glycol ether solvents), is used as a solvent with pastes containing alkyds to control evaporation, aid penetration and leveling.

It is especially effective when used with indigo type dyes. Just a little Dowanol DE-SG greatly increases solubility of the dye. It provides brighter colors and better resistance to crocking. (Crocking is the soiling or staining of adjacent material by the coloring matter in the fabric.) More and more textile people are benefiting by Dow's consistent quality which assures them uniform end product.

Other important uses of the Dowanol products are in today's modern, heavy-duty brake fluids, fast drying lacquers, cosmetics and many other areas where extremely versatile solvents are needed.

★ ★ ★

If these news reports have stirred your interest, you can get complete information on any of the chemicals mentioned (or any other Dow chemical) from THE DOW CHEMICAL COMPANY, Midland, Michigan, Chemicals Sales Dept. 605AF2-21.

THE DOW CHEMICAL COMPANY
Midland, Michigan

DOW

SEPARAN *speeds uranium processing*

Separan® NP10 is a flocculating agent, an "octopus" chemical which gathers solids into small masses so that they quickly settle to the bottom of a body of liquid. Thus, desired solids may be recovered, unwanted ones eliminated.

Not long ago, a large mining company was attempting to improve throughput in its uranium processing operation. Its development engineers evaluated and used Separan NP10. Net result: an average filtering rate better than twice what had been achieved before, as well as much greater metal value recovery.

Separan flocculants have countless uses outside the mining field, too. One of the best known is in the clearing of waste water in industrial operations. Processors requiring purer water for their manufacturing operations are also relying more and more on this speedy flocculant. In case after case, its use provides more efficient operation as well as greater economy.

OTHER DOW CHEMICALS
of interest to you

CAUSTIC SODA

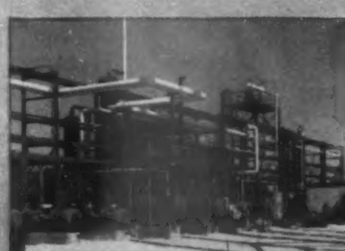
Long a prime source of this vital material, Dow has recently opened a new caustic terminal at Grants, New Mexico, to serve the vital uranium mining industry.

ANHYDROUS AMMONIA

Farmers know this important chemical as their cheapest source of nitrogen, an important fertilizer. Injected into earth as gas, it means greater productivity per acre.

DOW-PER®

This is the Dow trademark for perchloroethylene, used by dry cleaners across the country as a synthetic solvent for cleaning clothes. Dow is a major producer of this product.



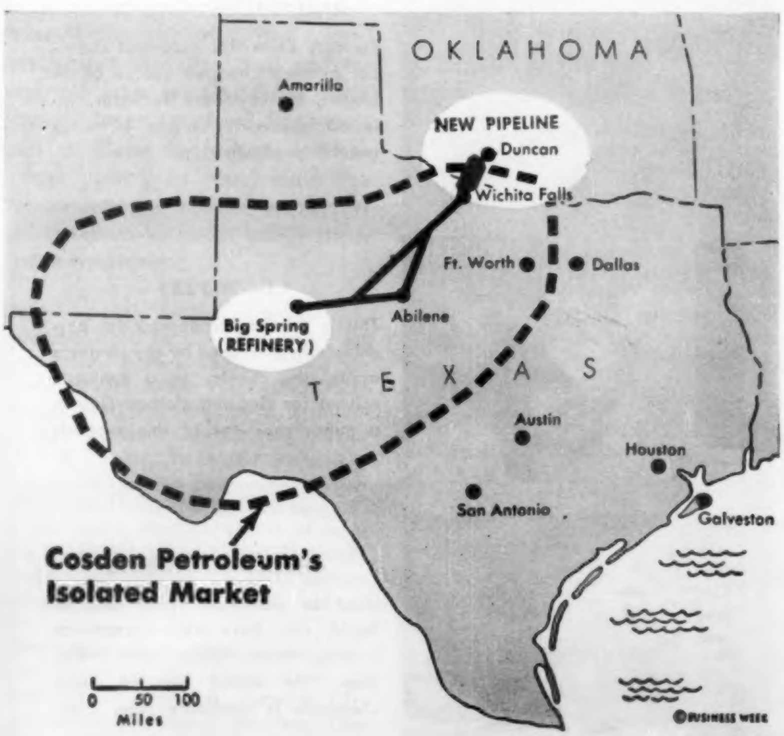
CHELATING AGENTS

Used to inactivate metal ions in liquid, they have wide acceptance in soap, textile, rubber, other industries. The widest line of these chemicals is available from Dow.

PRES. R. L. TOLLETT has brought Cosden up from the depths of bankruptcy in 19 years of sharp management.

REFINERY stands in farmland near Big Spring, Tex. (pop. 30,000).

Cosden Petroleum: A Big Frog



A smallish refinery makes its isolated location work in its favor as a sheltered market.

When Cosden Petroleum Corp. of Big Spring, in West Texas, this week completed a 47-mi. pipeline connection to Duncan, Okla. (map), it was a case of a big frog poking his nose out of a little puddle.

The 47-mi. extension of Cosden's 228-mi. pipeline from Big Spring to Wichita Falls, Tex., permits the company to pour 150,000 bbl. (6.3-million gal.) of gasoline each month into Midwest markets. This is an ambitious venture for a company that has been content up to now with the sparse West Texas market surrounding its medium-sized (42,000 bbl. a day) refinery.

Pres. Raymond Lee Tollett, 51, hastens to note: "The 150,000 bbl. monthly we will move through the line will not become a significant factor in that market. Even if we were to ship all of our production into that area, giving up our West Texas market, it would amount to only about half of the expected increase in demand in that area next year."

• **Protective Coloring**—Part of the secret for Cosden's success in recent years has been its small stature among giants. Unable to compete with the big major companies in general, it has staked out

in a Little Puddle, Texas-Style

a small area for itself and tried to remain inconspicuous. In its West Texas market—too lean to attract competition from outside—it performs services for the major oil companies that they can't profitably do for themselves.

Cosden specializes in custom refining—making gasoline to specifications for major oil companies that sell through roadside pumps in West Texas. In addition, Cosden markets gasoline under its own name and those of subsidiaries—not enough of it to irk its custom-refining clients but enough to add substantially to earnings. It fills one-third of Texas' asphalt needs for highways, has gotten into plastics production and marketing, and is now looking for oil reserves to feed expansion.

• **One Man's Doing**—Tollett's sharp management, turning Cosden's natural handicaps into assets, has raised the company from a string of three bankruptcies in 1928-40 to a solid position of more than $65-million in assets and a $5.2-million net profit last year.

"On paper it just won't work," says Tollett. "No Oklahoma or Gulf Coast refiner would take our location."

"Give that Big Spring refinery to any other man and he'd go broke," is one oilman's way of lauding Tollett.

It isn't often that the responsibility for a company's fortunes is so clear-cut. Tollett, then 31 and former head clerk for Clint Murchison and Fain-McGaha Oil Corp., entered Cosden management in 1938 as secretary-treasurer. Cosden was at an ebb, in receivership. It became all Tollett's show in 1940 when he was handed the presidency.

I. From Hunger

Tollett regards himself as a professional manager, with the experience to run any sizable company. His stated policy for Cosden is: "Grow, always grow—you just can't sit still."

Cosden's growth has come as reaction of management to a series of desperate jams.

• **Buggy-Whip Business**—To begin with, Cosden Petroleum at Big Spring was born too late, as successor to oil baron Joshua Cosden's first Cosden Oil Co., a company with $50-million assets in 1925, lost in Wall Street speculations. When he built up his second fortune, Cosden was induced to build the Big Spring refinery to provide fuel oil for locomotives on the main line of the Texas & Pacific Ry.

The plant was hardly on stream when the 1929 crash dropped Cosden's stock from $105 to 25¢ a share and threw the company into receivership. The company tottered through its days in bankruptcy (the Cosden family was cut out of ownership entirely in 1937) and through the war years. Then the T&P dieselized, leaving Cosden with no market for its product.

The refinery was geared to produce residual fuel, which could be sold as heating oil but not as diesel fuel. In a sparsely populated region such as West Texas, there was not enough market for heating oil.

• **Into Asphalt**—"We decided to make asphalt," says Tollett. "It was either that or close."

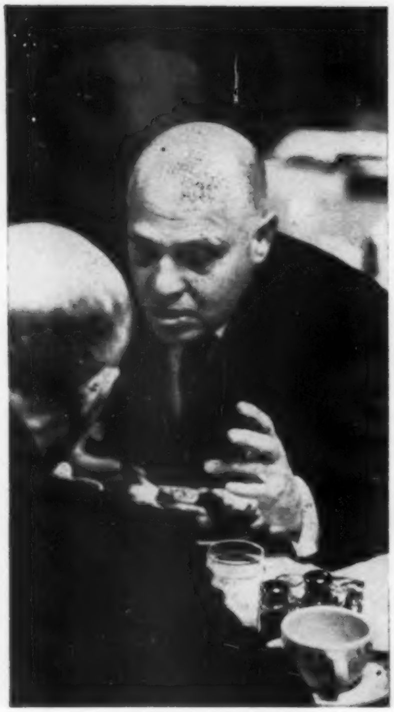
This 1949 decision gave Cosden a natural market. Though population is skimpy in West Texas, thousands of miles of federal highway and farm-to-market roads have been and are being built. The state was glad to buy its asphalt nearby. By the same token, transportation costs limit Cosden's market to the same area.

"We can't truck the asphalt into East Texas as cheaply as a Gulf Coast refiner can, so we stay in our own area," says Richard Johnson, vice-president for sales.

By finding a profitable asphalt, Cosden also gained gasoline production, the bread-and-butter item for any refinery.

Johnson expects the asphalt business to stay good. "Right now," he says, "it's the most abused and overlooked product in the oil industry."

Cosden installed a catalytic cracking unit in 1950. The company produces 23% of its total volume in asphalt, accounting for 16% of total revenue. It



also makes residual fuel, mostly on contract, at the rate of 5.7% of volume and 2.9% of the sales dollar.

• **Gasoline Business**—This modernization gave Cosden an oversupply of gasoline and the aromatic hydrocarbons on which many petrochemicals are based. The gasoline was a special problem.

Cosden could sell part of its gasoline output in West Texas, but not all of it unless it shut the major companies entirely out of the area. The company steadily built up its own retail outlets in an area bounded by Albuquerque, N. M., on the west, Waco on the east, the Texas Panhandle on the north, the Mexican border on the south. It now has 441 Cosden stations in this area, 100 Col-Tex stations, and 59 Onyx stations.

This takes care of about 40% of Cosden's gasoline production. To move the rest, Tollett went to the major oil companies with a convincing argument that Cosden could make their branded gasoline cheaper than they could haul it from their Gulf or Oklahoma plants to West Texas markets. He was also willing to take their West Texas crude production off their hands.

• **How It Works**—To move crude oil from West Texas' Permian Basin to Gulf refineries would cost the major companies 22¢ to 25¢ a bbl. To refine it locally would require new refineries, or modernization of the one or two old ones in the area. To ship gasoline from Gulf refineries to West Texas costs 3¢ to 3½¢ a gal. by truck or 1¢ a gal. by pipeline (at heavy capital cost).

So the majors were happy to have Cosden take their crude and also make their branded gasoline. Cosden now custom refines each brand exactly as the company makes it in its own plant.

Custom refining of gasoline accounts for 30.5% of Cosden's physical volume, 33% of its dollar volume. Cosden hopes to shift its gasoline run from 60% custom to 50%, and its new access to the Midwest market will help to build up its own sales.

• **Petrochemicals**—With its plant modernization through 1952 and its assured volume from custom refining of gasoline, Cosden found itself in an excellent position to use its high-yield plant to produce petrochemicals, both for itself and as a custom producer. This use turns a profit on the aromatic hydrocarbons that are derived, along with gasoline and asphalt, from oil cracking.

Volume of plastics materials is still small, but it yields nearly 8% of sales.

Senior Vice-Pres. Dan Krausse, now only 34, was research engineer in charge of setting up the plastics operation. He installed a BTX (benzene, toluene, xylene) unit six years ago, and in 1957 a stryene unit.

• **Polystyrene**—Again Cosden had a break. "We found," says Krausse, "that we had an extra high percentage of natural ethylbenzene [styrene, the base of polystyrene] in our BTX unit process."

A year ago, Cosden put its polystyrene plant into operation, and it was in full production by last June, though it's running below capacity now. The plant is designed to produce 22-million lb. of molding material a year.

Cosden sells the polystyrene at 1½¢ a lb. less than the major suppliers charge. "We only want 5% of the market," Krausse explains. A major supplier wouldn't cut prices to compete with so minor a competitor. Again, it pays Cosden to be small.

II. Formula for Success

Emby Kaye, Tulsa petroleum consultant and former vice-president of Skelly Oil Co., sums up Cosden's success: "They have sharp management, availability of crude, plus a non-competitive location."

• **Management**—One of Tollett's first moves when he took over in 1940 was to move the corporate offices from a luxurious suite in Fort Worth to the middle of the Big Spring refinery. He believes in fingertip control of operations, with a minimum of protocol.

For example, Tollett doesn't hold staff meetings but meets with managers individually. He gives them broad latitude for judgment. He keeps down red tape by keeping down the number of assistants each executive has. "If I find there are too many assistants," Tollett notes, "I do away with that job. You can't do away with Parkinson's Law, but you can minimize it."

Two men share the top echelon with Tollett: Dan Krausse, the engineer, and Marvin Miller, the other senior vice-president. Miller, in his middle 50s, is heir apparent if Tollett should ever move up to a board chairman, a position not provided in the bylaws. He is a production man with broad experience in refining. Tollett plans to have Miller and Krausse exchange jobs sometime, to learn each other's problems.

Tollett himself is a lawyer (he passed his bar examinations after 10 weeks' study) and a certified public accountant (he passed his examination by taking a correspondence course). During the Depression, he was an FBI agent.

With its free-wheeling initiative, Cosden management counts on moving faster, once it makes up its mind, than most larger oil companies. It works closely with Universal Oil Products Co. (BW—Jan.11'58,p50), has never bothered with costly and time-consuming pilot-plants.

• **Supply of Crude Oil**—Cosden's refinery at Big Spring is in the heart of the Permian Basin, source of one-sixth of the nation's crude oil. The 12,000-bbl.-a-day Col-Tex refinery, a subsidiary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absorbed in 1956, is only 30 mi. from Big Spring, at Colorado City, Tex. Cosden also owns the small Onyx refinery at Abilene, shut down last year when aviation gasoline sales fell off.

Including some production from Col-Tex, Cosden can produce 5,000-bbl. a day of crude, under current prorating of Texas production. In 1950, when Tollett gave Marvin Miller the assignment of boosting Cosden's reserves of crude, the company owned production of only 500 bbl. a day. Its currrent goal is to reach 10,000 bbl. a day in the next three years.

In its explorations, which include the Peace River area in Alberta and some offshore drilling in the Gulf, Cosden believes in partnership with others. "This spreads the risk," says Miller. "We had to decide whether it was better to own five holes in the ground or part of 10 wells."

Last year, the company drilled 64 wells, and 80% hit oil. These were mostly on proven leases, but it's still a high batting average.

• **A Place of Its Own**—Finally, Cosden's isolation both protects the company against competition—"The area just couldn't support another Cosden-type operation," says Krausse—and gives it a protected base from which to extend its operations.

Cosden's new 275 mi. pipeline isn't owned by the company but by the Cosden Employees' Pension Fund. Through the trust fund, Cosden was able to borrow 85% of the cost of the line—total about $4.5-million—with a 10-year contract to use the line at capacity as security.

III. Today and Tomorrow

When Tollett became president in 1940, current liabilities exceeded current assets, creditors were pounding on the door, and common stock had a market value of less than $1 and a liquidation value of zero. Gross investment in properties amounted to $6,352,000.

Current gross investment exceeds $65-million, with a goal of $100-million within the next five years. Common stock has stabilized at $19 to $22 a share. Earnings in the fiscal year ended Apr. 30, 1957, came to $2.55 a share and last year $2.01; dividends of 94¢ in 1957 and $1 last year were paid, retaining the rest for company growth.

Tollett has drawn up a tentative plan to spend $10-million on plant and equipment in the year beginning May 1, and this would require a $4-million loan.

Tollett avows that he wants to head a big company, but he wants it to be on solid footing. "I'm not looking for a half-billion-dollar company," he says. "I want to hit $100-million first; then I'll look for $200-million." END

A Bank That's Built on

WOMEN, waiting for B of A's Larkspur (Calif.) branch to open, have majority of the savings accounts in the little bank.

Retailing, through 638 branches, has made the Bank of America the biggest in the U. S. Its stress is on the local unit.

By any standard, the bank pictured on these pages is a small country bank. Situated in Larkspur, a community of just over 4,000 in picturesque Marin County, across the bay from San Francisco, it has less than $3-million in deposits, and loans outstanding of only $1.4-million. The bank building itself is just big enough to accommodate its 10 employees, who in typical small town fashion know a great many of their customers by name.

The president, S. Clark Beise (cover), has the scrubbed and unpretentious manner of a country banker. Yet no banker anywhere ever has commanded more resources. For Larkspur is just one of 638 banks he runs as president of the world's biggest private banking system, the Bank of America National Trust & Savings Assn.

• **Infinite Variety**—There is no other bank that comes close to the B of A in the number of branches, of employees (24,500), of deposits ($10.3-billion), or of accounts (7.1-million). It has some big metropolitan branches in San Francisco and Los Angeles, but the Larkspur branch of the B of A is by no means the smallest link in a chain that stretches over California from the Mexican border to Oregon. In some remote areas, there are B of A branches with only two employees, and more than 60% have less than $10-million in deposits.

Strung together, the links in the B of A's chain dwarf even the citadels of big banking in New York. Big or small, every branch in the B of A's far-flung network offers a variety of services that make each bank a "department store of finance."

This week, the B of A revealed that it had notified the Small Business Administration that it was forming a small

n the Masses

business investment company under the law passed last year (BW–Oct.11'58, p23). When SBA approval is granted, the B of A plans to run the company as a separate entity, divorced from its branches. But its decision to take the step is fresh proof of its stated aim of branching out into every aspect of finance that is open to it.

• **Charge Plans**—Just two weeks ago, for instance, Clark Beise announced that the B of A was extending its new charge account plan—which permits subscribers to buy goods and services on a deferred payment basis—throughout California. This move came after the plan was given a trial run in the Fresno area, beginning last September. It followed on the heels of a number of other services that the B of A initiated, including "studyplan" loans for college students, and an "Employee Loan and Deposit" service that enables workers to arrange for savings or loans without leaving their plants (BW–Dec.20 '58,p55).

It would be impossible for all but

BANKING FLOOR at Larkspur (above) is old-fashioned, but the little branch can offer its customers all the immensely diversified services out of its giant parent.

BRANCH MANAGERS have considerable autonomy in the Bank of America system. Here Larkspur's M. W. Coombs arranges a business loan. He works on a personal basis.

(Story starts on page 62)

the biggest independent banks to offer the services that the B of A makes available in even its smallest branch. That's because the cost of operating and overhead would eat up the profits. But the B of A, with its gigantic pool of financial resources and skilled personnel which branch banking provides, is constantly coming up with new ways to serve its customers and enlarge its market.

• **"Loss Leader"**—Not all of the B of A's plans return a profit. Its school savings program, for instance, is recognized as a "loss leader," and its Vacation Club, which is a variation of Christmas Club plans, has not come up to expectations. As a department store of banking, the B of A considers that it must maintain a wide variety of services in order to keep on growing.

California's explosive economic growth and its liberal banking laws, which permit statewide branch banking, have contributed to the B of A's giant size. But the urge to expand is deepseated in the bank itself. It pioneered the basic idea that gave birth to branch banking—the once novel notion that banking is "for the many not only the few."

I. Banking for the Few

Before the advent of branch banking, most commercial banks catered to a select group of customers, mainly big businesses and rich individuals. In making loans, bankers took the view that character counted as much as a balance sheet, and there was no way of judging character except by limiting their accounts to people they knew.

In those days, of course, there were comparatively few people aside from the rich who could do much saving. Those who did had the choice of putting their cash into fly-by-night banks or savings societies, or stuffing it under the mattress. The established banking houses ignored the small saver and borrower as being too costly and time-consuming to serve.

This tradition of exclusiveness still exists in some independent banks, but it is no longer the prevailing attitude. For some years, the spread of branch banks, designed to bring a host of financial services to a mass market at low cost, has been transforming the entire industry and threatening the very survival of unit banks.

• **Wholesalers**—Some big city unit banks have stayed in business by sticking to "wholesale" banking—dealing almost exclusively with big corporate clients. But with the growth of business and trade, many wholesalers have had to merge to stay alive, or go into retail banking to the mass market. The fact is that many unit banks still exist simply because state laws prevent branching or allow only limited branch operations.

Today, the country seems poised for a new branch bank explosion. In New York, the banking industry has high hopes for new legislation designed to permit city banks to follow their customers to the suburbs. In Illinois, where branch banking is now prohibited, Chicago's big banks are fighting to branch out.

In California itself, the B of A is facing increased competition from other branch banks. Last month, the First Western Bank & Trust Co. announced it was merging with the California Bank.

II. Banking for the Many

Beise is unworried by this threat. As an apostle of branch banking, he is convinced that it is "absolutely essential to meet the needs of an expanding economy." He is critical of other commercial banks for neglecting to attract savings accounts, which, he feels, are both profitable and useful to a branch operation. In his view, it is not enough to provide credit for industry; he thinks that a bank must have savings deposits to finance mortgages in residential areas and consumer credit for goods and services.

The B of A's savings deposits account for more than half of its total deposits, making it the largest savings bank in the nation. It has used these savings deposits to finance a big portion of California's huge housing boom. As one B of A official puts it, "We try to help business make money and give consumers a chance to live better."

As a retailer, the B of A's branches have many advantages over home-grown independent banks. It not only can provide a great many more services, but it can also be much more flexible in putting its resources to work. For example, if its Larkspur branch has a surplus of funds, they can be shifted to another area; or if Larkspur's customers make a run on the branch, it can quickly meet demands by calling on headquarters.

• **In New York**—The branch system also has advantages for a wholesale bank, although the B of A is nowhere near so important in this type of banking. Its deposits give it the wherewithal to wholesale—it can make a single loan of $50-million—but most of this business still goes to the big New York banks, which are now getting more and more into retailing.

In competing for big accounts, B of A officials express a respect for New York's knowhow. San Francisco, they acknowledge, is unlikely to replace New York as a money market. However, the B of A is doing a lot of lending to national companies that have interests in California, and it is confident that wholesaling activities will grow.

S. CLARK BEISE, president of the Bank of America, runs his decentralized empire from San Francisco headquarters.

Still, retailing is certain to continue to be the B of A's main interest. It owes its present size and status to concentration on retailing.

• **The Founder**—A. P. Giannini, the founder of the B of A, was the pioneer of retail branch banking. He opened his first bank—the Bank of Italy—for "the little fellow" in 1904, before San Francisco's great earthquake. A bold and vigorous financier, Giannini quickly built up a chain of California banks by acquisitions and mergers; formed Transamerica Corp., a bank holding company, to invade other states; dreamed of a nationwide branch banking system along the lines of the British and Canadian branch banks, but attracting small as well as large accounts.

His buccaneering tactics and blunt speech made enemies in the Federal Reserve, the Treasury, the banking community, and Wall Street. According to one Giannini disciple, he "liked stepping on toes." Although at his death, the B of A was established as the nation's biggest bank, his dreams of a banking empire with branches in every state and foreign country had long been shattered.

• **New Orthodoxy**—Giannini's ideas—once considered radical, if not heretical, by the banking community—have be-

". . . without adding machines and other mechanical devices, mass banking as Giannini conceived it would have been impossible. . . ."

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come accepted doctrine. The B of A is no longer a lonely and abused pioneer in banking. On the contrary, it is recognized as the leader of the new orthodoxy, and Beise says that "we are constantly fighting against the attitude of entrenched success."

Although his quiet manner is in sharp contrast to Giannini's fiery brilliance, Beise is every bit as dedicated to the idea of banking to the masses. As a national bank examiner, he had gone over the B of A's books in 1933, criticized some of its investments as well as its resumption of dividends—a criticism that Beise still thinks was right. Then, in 1936, he joined the bank, worked closely with A. P. and his son, Mario Giannini, who served as president from 1936 until his death in 1952, and Carl F. Wente who succeeded Mario for a short "interregnum" before Beise took over in 1954.

III. New Frontiers

The B of A has registered a big expansion since Beise's election, and he is intent on making it even bigger. He insists that its pioneering days are not over, because "there are new frontiers to explore and develop."

One such frontier is international banking. Under Giannini, the B of A handled a large volume of remittances—sent by immigrants to their home countries—but was small potatoes in world trade. But in the last 10 years, there has been an enormous expansion in the bank's foreign activities, and in the growth of its wholly owned subsidiary, the B of A (International), with total resources of $334-million and a home office in New York. As a result, the B of A has become a major factor in international banking, which its officials say, is a "clear cut growth situation."

• **Electronics**—Beise also sees opportunities on the domestic front. He is convinced that electronic devices can speed up banking procedures, leading to new services for a still bigger market.

Some new breakthroughs in electronics are, in fact, essential to assure B of A's continued growth. Without adding machines and other mechanical devices, mass banking, as Giannini conceived it, would have been impossible. Now, the B of A is so huge that it cannot contemplate future expansions without the widespread use of electronics.

Electronic machinery is already processing the B of A's real estate and consumer loans, and Beise is encouraged that personnel expenses in these areas have been cut by 35%. This year, moreover, a huge new service center, which will house electronic equipment to process both checking accounts and loans, is scheduled for completion in San Francisco. Other service units are being spotted in strategic locations throughout the state; by sometime in 1961, they are expected to be at the disposal of every branch in the system.

• **Skeptics**—Some responsible bankers question the wholesale use of "assembly-line" banking. They insist that there is a limit to the market any bank can serve, because the granting of credit—to a business or a consumer—takes personal judgment and experience, and is not something that can be left to an IBM card. This argument owes a great deal to the traditional view of banking, but those who express it no longer deny that the greatest profits and growth potential are in extending credit to a mass market. They warn, however, that a prolonged recession could mean real trouble.

Beise insists that the granting of credit can never be an automatic process, for extending credit always requires personal judgment. But he also says that there is no ceiling on the B of A's growth, which suggests that the bank will accelerate its mass extensions of credit on what amounts to a semi-automatic basis.

Its new charge account plan is just such an example, for in the San Francisco area alone, the B of A is mailing out credit cards, called Bankamericards, to 500,000 families, including both customers and noncustomers. Bankamericards are also available, for the asking, at any B of A branch or through the merchants using the plan. True, the bank will run a credit check on every card holder, but even this is done by routine.

• **No Other Way**—With growth as its main objective, the bank has no other course. When Giannini was alive, growth was simply a matter of staking out claims in underbanked territory or invading the province of other banks and using the advantage of this empire's resources to cut interest rates.

These methods can no longer be brought into play. While the B of A contemplates a steady increase in the number of its branches, it knows that


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". . . headquarters expects each branch to operate at a profit and has set out detailed rules to make sure . . ."

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it will face competition from other branch banks as well as from nonbank financial institutions—mainly savings and loan associations and finance companies.

The B of A will not be able to cut its lending rates to get new business, because its competition can do the same; in fact, savings and loan associations have an advantage over the B of A and other commercials banks in being able to offer higher rates on savings.

Under these conditions, the B of A is concentrating its efforts on offering an ever wider variety of banking services to the widest possible market. This calls for creative banking ability at the top, and a great number of outlets where the services it develops can be sold on a personal basis. The B of A's branches are its retail outlets for this job.

IV. Limited Kingdoms

According to Beise and other headquarters men, the key to B of A's success is its 638 branches. They believe in allowing the branch managers considerable autonomy, refer to them as the "chief executive officers" of the banks they run, or as "kings of little kingdoms." It's claimed that any branch manager can handle 95% of the loans that come to him.

Yet B of A's branch managers are far from being absolute monarchs. Headquarters expects each branch to operate at a profit and has set out detailed ground rules to make sure. For example, depending on his branch's size and deposits, each manager has a definite lending limit, starting at $5,000 on unsecured loans for the smallest branches and going up to $250,000 for the biggest.

• **Operations Manual**—What's more, the B of A has a manual providing standard operating procedures for almost every type of transaction that each branch is supposed to follow, and it also stresses the desirability of participating in community affairs and maintaining high moral standards. All this does not rule out flexibility and independent judgment, but it does cast some doubt on just how much power the branch managers possess.

Conceivably, a manager could go completely by the book and turn in a satisfactory job. But the B of A's best managers display aggressive initia-

". . . to get its share, B of A emphasizes that its branches must operate as neighborhood banks . . ."

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tive in drumming up business, and sometimes come into conflict with the ground rules in making loans. If a branch's operations are successful, headquarters does not interfere. As one official puts it, "Results are what count with us."

Each branch prepares an estimate of the business it expects to do in the year ahead. These play a part in the over-all targets set at headquarters. This year, though, the 1959 goals set by top management are larger than the total estimated by the branches.

• **Inspection**—While B of A's management claims to decentralize "to the nth degree," each branch is carefully supervised by trained field men who are adept at spotting weaknesses. Other roving officials are engaged in hunting up new business, and headquarters issues a constant stream of information and advice.

When money is tight, the branch managers are told to go easy on making new loans. When money eases, they are given a green light. Officials admit that communications is one of their biggest problems because "it is hard to apply specific rules to a general situation."

Once a year, B of A's top management holds a series of meetings with the branch managers, combining pep talks with criticism. This also gives the managers an opportunity to sound off. One subject that came up at this year's meetings was whether the stress on service to the many would threaten the loss of big accounts; the consensus was that the B of A could take care of both big and small customers. There was also talk about increased competition, which Beise answered by declaring "We will get our share of a growing market, and a little more."

• **Neighborly**—To get its share, the B of A emphasizes that its branches must operate as neighborhood banks. It seeks a community identity in all but its big city branches, even to the extent of designing its banks with an eye to the architecture of the neighborhood.

This neighborhood concept is the B of A's answer to critics who contend that branch banking destroys the personal touch. Beise himself feels that there is room for both unit banks and branches "just as there is for small specialty stores and supermarkets."

In California at least, the unit bank is on its way out. Before Giannini began

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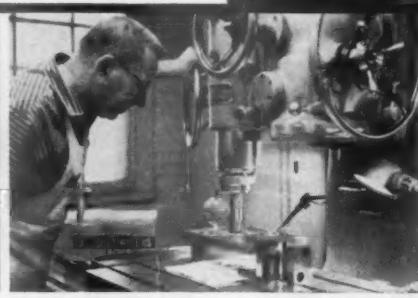

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". . . these men who make up the B of A's high command have specific areas of responsibilities . . ."

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building his empire, the only kind of banks in the state were unit banks. By 1949, there were 182 unit banks compared with 33 branch banks operating 847 branches. At the end of 1958, unit banks had dwindled to 71, while there were 1,423 branches run by 53 branch banks.

V. The Men at the Top

Although the management of B of A bestows all of the credit for the bank's expansion on the branch managers, the real power is in top management's hands. They are, in effect, the kingmakers, responsible for mapping over-all strategy for the bank as a whole.

Those on the management team bear no resemblance to the popular stereotype of a banker. B of A executives know all about balance sheets, but more important, they are free-wheeling types with a penchant for unconventional problems. Some, of course, are more talented than others, but by and large, they are much more like corporation executives than the conventional banker, and as such, may become a new stereotype.

Basically, branch banking has much more in common with a big industrial or retailing enterprise than with other banks. And the B of A, with its far flung branches and its multiplicity of services, has many more organizational problems than tight-knit branch operations like those of New York's Chase Manhattan or First National City, which are confined to a much smaller area.

• **Many Sided**—The department store type of operation run by the B of A requires a broad knowledge of many different fields—agriculture, industry, international trade—and a capacity for thinking in broad terms. These men who make up the B of A's high command have specific areas of responsibility—operations, loans, business development, trusts—but are supposed to range over every area of the bank's operations, and have the help of specialists who can provide the details needed for making decisions.

Beise claims that the executives of the B of A make up a "team without stars." He adds that "no one plays politics." Both these statements seem calculated to distinguish the present from the past more than anything else. For A. P. Giannini overshadowed the entire staff in his day and, like many

". . . according to Beise, 'I'd prefer customers to have a choice of banks everywhere' . . ."

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great men, could not resist playing favorites, who, in turn, played politics.

Today Clark Beise is the undisputed leader of the B of A.'s team, with Jesse Tapp, the bank's chairman, who overlooks the southern part of the empire from his office in Los Angeles, second in command. Beise is quietly persuasive in directing the bank's growth and surprisingly effective in stimulating his staff. Politics is still played, of course, just as in any big corporation, but under Beise merit, not whim, is the key to advancement.

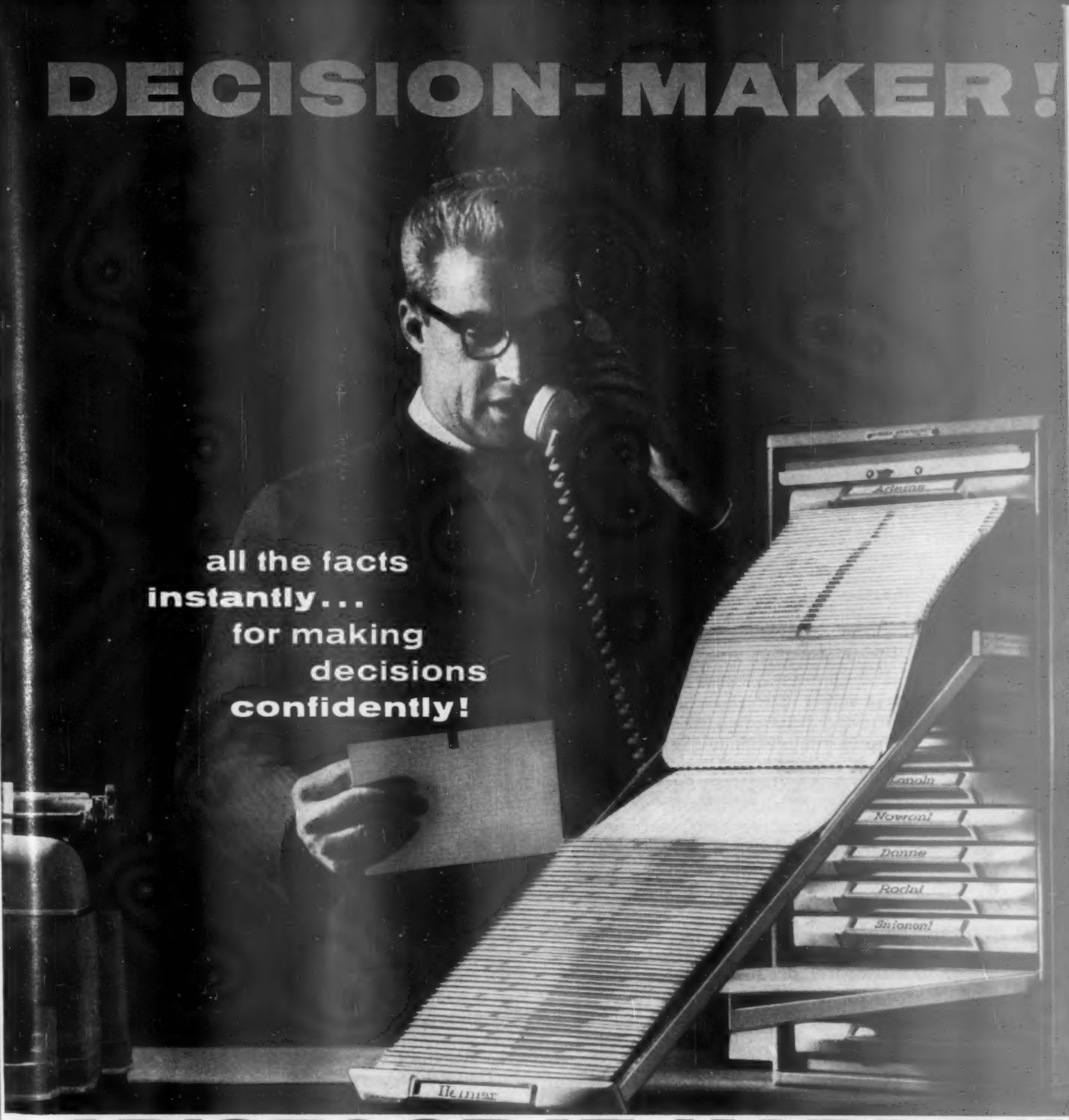
• **Looking Ahead**—Beise is a strong advocate of Giannini's doctrines. He points out that banks are forced to serve "artificial territories set by state laws." But he has learned to live with his barrier. He thinks that Giannini's idea of a regional or national branch banking system will be realized someday, but he is satisfied with trying to grow within the limits set by law.

There seems to be nothing hypocritical in Beise's desire to see other branch banks compete with him. The fact is that if the B of A's rivals merge in order to offer stronger competition, Beise figures that his banks stand to gain both in the short-term and the long.

In the short-term, mergers of competing banks will involve a shakedown that provides the B of A ample opportunity to capture new business. Then, too, an organization as big as the B of A cannot depend on internal stimulants alone to maintain the hard sell in its branches. The springing up of rival branch banks or savings and loan companies frequently turns out to be the most effective means of increasing business.

• **Easing the Pressure**—In the long run, B of A feels that the expansion of other branch banks in California should make it less of a target for all kinds of sniping. Simply because it is big or the only bank in town, the B of A is constantly criticized by disappointed would-be borrowers. This is not a serious problem, at the moment, but it is a threat. According to Beise, "I'd prefer customers to have a choice of banks everywhere."

The B of A recognizes that the mergers now taking place will eventually mean heightened competition. But it is confident that it will continue to add new services and customers, and will be able, in Beise's words, to "get our share, and a little more." **END**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Boeing May Have to Refund $20-Million In Alleged Excess Profits on Contracts

Boeing Airplane Co. will have to return $20-million in alleged excess profits on 1952 defense contracts—if the U.S. Tax Court approves a new request in Boeing's appeal from the Renegotiation Board's excessive profit ruling (BW—Nov.15'58,p46). The Justice Dept. will ask the court to double the $10-million bill that the Renegotiation Board decided Boeing owes the government. It says that, after studying hitherto unavailable sales and cost figures, $35-million would have been reasonable profits for Boeing's 1952 contracts; government witnesses put the company's actual profit at $56-million.

The Tax Court's decision—which probably won't be made until 1960—could set the pattern for a slew of pending suits filed by other aircraft companies challenging refunds of more than $50-million ordered by the Renegotiation Board on defense contracts since 1952. Boeing's case involves the largest renegotiation refund appealed to the Tax Court. The company also is appealing refunds totaling $17.5-million before taxes ordered for 1953 and 1954.

The Renegotiation Board contends that Boeing's profits were excessive in light of its sales volume, extensive use of government-owned facilities, and relatively high rate of return, compared with other industries. Boeing argues that **the Board is applying broad standards to specific company situations where they don't fit.** For one thing, the company says that the aircraft industry, where capital for expansion comes in large part from plowed-back earnings, shouldn't be compared with other industries in rate of return.

• • •

Feuding New York State Banks Work Out Accord on Branches

An extension of branch banking seemed probable in New York State this week. Until now, expansion in branching has been held back by disagreements between commercial banks and mutual savings banks. But now the two dissenting groups have combined to back an amendment to the state's banking law that will give New York City's giant money-market banks a chance to expand into Long Island's lush suburban territory.

At present these banks, which include six of the 10 biggest in the nation, cannot branch outside city limits. As a result, their share of the banking system's deposits has dropped while surburban banks have been gaining. **But under the compromise, the city's commercial banks would be able to build up their business in Long Island; commercial banks with head offices outside the metropolitan area would get unlimited branching in the rest of the state;** savings banks would be allowed to open two additional branches each either in the metropolitan area or upstate.

Last ditch opposition to the proposal is expected from small upstate banks, which—though not directly involved—see a potential competitive threat in any extension of branch privileges for the big city banks. So far, they've found their chief spokesman in Arthur T. Roth, president of the Franklin National Bank of Long Island, whose unsuccessful campaign to oust the mutual savings banks from the American Bankers Assn. made headlines last summer (BW—Sep.20'58,p53).

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Premium on Canadian Dollar Drops As U.S. Investment Demand Lags

The Canadian dollar sold this week at a premium of only 2¢ over its U.S. counterpart, the lowest level in a year. But foreign exchange dealers say the decline is likely to be temporary, because high short-term money rates in Canada are drawing funds out of New York.

A number of factors are responsible for the drop in demand for Canadian dollars. Canadian provinces and municipalities, whose borrowing here has been important in keeping Canadian currency at a premium, are not currently in the New York market. Also, uncertainty over Diefenbaker policies on oil and gas export control has tended to limit the flow of U.S. investment into Canada. And the recession forced a cutback in U.S. purchases in Canada, widening Canada's trade deficit.

On the plus side, New York bankers say that **rising Canadian Treasury yields are acting as a magnet on foreign funds** now invested at U.S. banks. By law, U.S. banks cannot pay more than 3% on these "foreign time accounts"—with Canadian bill yields close to 3.6% and rising steadily, there's a powerful incentive to switch.

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Canadian Javelin Makes Deals For Development of Its Ores

The fortunes of Canadian Javelin, Ltd., which hit a low point last summer when its stock was blacklisted by the Securities & Exchange Commission (BW—Aug.2'58, p73), improved sharply this week after the signing of two agreements with Pickands Mather & Co. These clear the way for development of the vast iron ore properties in the Wabush Lake region of Labrador.

Under the terms of one of the agreements, P-M, representing Wabush Iron Co. and the Wabush Lake Ry., bought Javelin's 10% interest in each of these two companies for $1-million, plus minimum payments of 10¢ a ton for mined ore up to a total $28.5-million.

In the other contract, **P-M agreed to develop Javelin's property in the Wabush area under a 99-year lease.** This deal will give Javelin royalty payments on a sliding scale, starting at a minimum of $2-million per year in about 1966, rising to a minimum of $5-million a year in 1969, and continuing for the duration of the lease—whether ore is mined or not.

For land-rich Javelin, the agreement represents a big step toward eventual cashing in on its Labrador ore holdings. P-M, which already has a cash investment of over $10-million in the area, can get mining operations started.

Reds Step Up Trade With U. S.

Moscow is putting more steam behind its campaign to penetrate U.S. market. Small businessmen are a prime target.

In the wake of Soviet First Deputy Premier Mikoyan's visit here, Russia is launching what Washington regards as a full-scale commercial campaign to trade with the U. S.

No longer relying on hit-or-miss trade offers, Moscow is trying to buy and sell in the vast U. S. market by:

• Beefing up operations of Amtorg Trading Corp., its trading agency with headquarters in New York.

• Expanding the list of Soviet commodities and products for sale to include 35-mm. cameras and even passenger cars.

• Laying plans to exhibit oil turbo drills, scientific instruments, and other products in New York's Coliseum in July at the big Soviet show, which is ostensibly a part of the new cultural-exchange program.

• Proving to small businessmen through profitable deals that they, as well as larger U. S. companies, can do business with Russia.

• **New Phase of Cold War**—While treating Soviet-U. S. trade in a matter-of-fact manner, Moscow evidently looks on its campaign as the latest, and possibly most important, phase of the economic cold war with the West. Washington officials and many businessmen are skeptical whether the campaign, in the long run, will amount to much. They remember Mikoyan's oblique answers a month ago to direct questions on details of Soviet-U. S. trade (BW—Jan. 24'59,p32).

Businessmen also recall how post-Geneva trade discussions in 1955, which started with a bang, eventually fell flat. Besides that, Moscow suddenly could call a halt to its present trade campaign during or after negotiations with the West over the Berlin crisis.

I. The Case of Orbit

During his visit here, Mikoyan tried to put the burden of increasing trade on Washington's shoulders. In talks with Commerce Secy. Lewis Strauss and Under Secy. of State C. Douglas Dillon, he brushed aside suggestions that Russia could boost the small flow of Soviet-U. S. trade without help from Washington.

Still, while Mikoyan scoffed publicly at Washington's cold war policies on East-West trade, the Kremlin already had decided to do exactly what Strauss and Dillon were suggesting.

SMALL BUSINESSMAN Louis Zemel goes to Moscow to clinch a deal for wood pulp.

Moscow's just-concluded deal with Louis Zemel (picture), 47-year-old president of Orbit Sales Co., Inc., of New Haven, Conn., is a case in point. Late this month, a Soviet freighter at Riga, Latvia, will take on board a 1,000-ton shipment of bleached sulphite pulp destined for Orbit Sales and some 20 to 30 of its customers.

All told, Orbit probably will purchase at least 20,000 tons of Soviet pulp this year. "For an ultimate goal," Zemel says, "we will be importing as much as Britain now gets from Russia—around 200,000 tons of pulp. And we may start buying newsprint." Zemel says other pulp importers who have heard of Orbit's deal are querying the Russians about similar purchases.

• **Orbit's Timetable**—Zemel's negotiations with the Russians, as it turns out, were remarkably simple. Learning that Russia was interested in selling pulp, he checked Washington, found that the U. S. has no tariffs on pulp.

Then, Zemel sent letters of inquiry to the Soviet Chamber of Commerce and Exportles, the state trading agency that handles exports of timber and timber products. He ordered a 300-ton sample for testing by two tissue manufacturers. Last September, 100 tons arrived; in October, the remaining 200 tons. Meanwhile, he negotiated a bank loan to finance large pulp purchases.

Finally, Zemel made a trip to Washington to talk with the Soviet Embassy's commercial consulate and to prepare a visit to Moscow. "We could have done everything by mail," he says, "but I felt it was much better to go to Moscow in person, since we plan to make this a big project."

Early this month, Zemel arrived in the Soviet capital, on a tourist visa; stayed at the Metropole Hotel; and in five days, spending an average of an hour and a half daily with Exportles officials, completed the deal. "They indicated that as time passes, they might consider granting us credits," Zemel says, "although now they want cash. They definitely want to become a factor in the U. S. pulp market."

• **Price and Timing**—Canadian pulp sellers say they have been aware for months of Moscow's interest in trying to penetrate the U. S. pulp market. What's so startling in Zemel's deal is the price—$115 a ton delivered—and the timing.

The North American price for bleached sulphite (used for high-grade products such as writing paper and tissues) is $155 a ton delivered, Canadian sellers point out. Lately, Scandinavian producers have been quoting $20 a ton under this price. And—say the Canadians—the lowest offer to U. S. customers yet reported from Russia is $127 a ton, somewhat above the price to Zemel's Orbit Sales.

Beyond that, Canadian sellers, now operating at around 70% of capacity, estimate that it will take between 18 months to two years for North American demand to catch up with the industry's current excess capacity. Thus, just as they did last year in selling aluminum to the West, the Russians appear to have picked the right moment to try to dislocate the pulp market. In the present buyers' market, say the Canadians, even small-tonnage Soviet offers are an irritant. These offers could really hurt—if Soviet pulp at the $115-a-ton price is of good quality and available in steady supplies.

II. Missionary From Moscow

At the same time, Amtorg Trading Corp. is expanding operations here to help smooth the way for Soviet-U. S. business deals such as Zemel's. Since 1948, when the cold war cut off virtually all trade with Moscow, Amtorg has had little to do in its modest offices on 37th Street in New York's garment district. But now Moscow has installed Nikolai N. Smelyakov—former Minister of General Machinery Construction,

first secretary of the Communist Party for highly industrialized Gorky province, and a "businessman" in his own right—as the top man running Amtorg.

He arrived here in December. Then, in January, he accompanied Mikoyan during his cross-country tour (though Smelyakov apparently does not speak English, unlike many top Soviet officials). At the moment, Smelyakov is planning to move his 19-man staff to "more comfortable" quarters in a new building in New York at 40th Street and Lexington Avenue.

• **Buy-Sell List**—Amtorg stresses that it wants to buy only "nonstrategic" goods: equipment for chemical and plastic production, nonmilitary electronic equipment, chemical fibers, and machinery including machine tools. Interviewed this week by a BUSINESS WEEK reporter, Smelyakov emphasized the advantage of "quick deliveries" in buying here. When asked about the reluctance of U. S. companies to sell chemical machinery or license chemical processes to Russia, he answered brusquely, "If Americans are uninterested in selling these, we will buy them elsewhere—for instance, from West Germany."

As for sales of Soviet products, Amtorg (which, Smelyakov says, gets a 1% commission on exports) is offering a broad list: chrome, iron, and manganese ores; cotton and linen fabrics; food-processing machinery; electronic instrumentation; cameras; small boats of the new hydrofoil type (BW—Jan. 26'59,p47); and even passenger cars.

Smelyakov says that Amtorg is "in the midst of two or three deals for selling 35-mm. cameras." And Russia is testing the West's markets for Soviet cars by shipments to West Germany, a leading auto producer (page 84).

III. Washington's View

Soviet sales to the U. S. already have been making headlines:

• Dow Chemical Co. recently signed a two-year contract for 54-million gal. of Soviet benzene. Dow had been buying benzene from Russia since 1951. But the size of the new contract is larger than earlier ones—and at a below-market price.

• Soviet scientific equipment for school laboratories is beginning to come into this country (BW—Jan.24'59,p34). Though a small market to tap, it amounts to approximately $6-million yearly.

• Commerce Oil Co. two weeks ago confirmed the purchase of an 18,000-ton tanker load of crude oil from Communist Romania. Commerce Oil reportedly bought this oil because of its low sulphur content.

• Some aluminum, in semifabricated forms, has been imported during the past year. This came from transship-

ments of aluminum and tin that Moscow sold to the West.

• **Import**—Until now, Soviet exports to the U.S. have been negligible—only about $15-million worth a year, mostly in furs and benzene. Even with a doubling or tripling of that figure, say Washington officials, Soviet sales here would not have a substantial impact on the U.S. market.

On the other hand, Soviet offers to buy here have stirred up controversy. Most chemical producers have told the Commerce Dept. that they oppose any significant change in East-West trade regulations prohibiting exports of technical equipment and knowhow. Yet some exporters—in the chemical industry and other fields—complain that export licenses to Russia are too hard to get from the Commerce Dept.

Still, one trade deal has gone through without fuss. This was the Soviet purchase of $6-million worth of cold-rolled sheet steel for auto production and $2-million worth of galvanizing line. But a second deal for 12,000 tons of steel oil pipeline is still up in the air. Commerce rejected the export license for this because of the pipeline's diameter—28 in. and 30 in. or what Commerce considers in the "strategic" category. But last week Commerce was reconsidering the application.

• **Prospects**—Total exports to Russia, Commerce officials say, dropped from $4.5-million in 1957 to below $3-million last year. Now, they estimate that this year's total will run at least four times that amount—still small but nevertheless growing rapidly.

On balance, trade analysts in Commerce and the State Dept. see little reason to expect a sizable increase in Soviet-U.S. trade. But they don't underestimate the damage the Russians can do by upsetting markets through well-timed, cut-rate sales. From the political standpoint, any sharp increase in U.S. deals with the Soviets could help undermine Washington's tough line in diplomatic negotiations with Moscow.

Washington's position on East-West trade at the moment adds up to this: U.S. businessmen have every right to explore individual deals with the Russians. But the Administration is not altering any existing bans—on both private and government long-term credits, on exclusion of Russia from most-favored-nation tariff treatment, and on curbs involving specific Soviet exports such as furs and crabmeat. In fact, Strauss in recent public statements has said he favors more, not less, controls on trade with Russia. However, if Soviet-U.S. trade increases, without stirring up complaints for domestic tariff protection, then there may be new pressure on Washington to take action to help expand this trade further. END

In Business Abroad

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Toyota Motor, Encouraged by Sales In U. S., Plans More Outlets Here

Encouraged by its ability to attract well-established car dealers on the West Coast, Toyota Motor Co., Ltd., of Japan, plans to build a nationwide sales and service organization in the U.S.

Since introducing its cars in California last summer (BW–Aug.2'58,p67), the Japanese company has sold close to 500 of its Toyopet Crown Custom models (picture) and Jeep-like Land Cruisers.

Some time in the next few months, the Japanese will add a station wagon to their line. Still later in the year, they plan to introduce a sports car model and a six-passenger sedan entirely redesigned for the U. S. market.

Expecting to have 100 dealers by spring, and close to 400 by the end of the year, **the company is setting up distribution centers in Chicago, New York, and Miami.** Parts depots will be established in Newark, Chicago, and Los Angeles. According to Toyota officials, dealers anywhere in the country can then expect overnight service on any parts they order.

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Common Market Group Grants $20-Million Loan to Mexico

For the first time in its brief history, the six-nation Western European common market group has acted as a unit in extending a foreign loan. The credit, for $20-million, went to Mexico's national petroleum monopoly, Pemex. It's payable over seven years at interest rates varying from about 5% to 6%.

Jacques Parent, director of Comptoir National d'Escompte de Paris, one of France's leading private banks, acted as negotiator and signed the agreement. Other institutions participating in the credit include the Commerce Bank of Dusseldorf, West Germany; Belgium's Banque de Bruxelles; Italy's giant Credita Italiana; Holland's Amsterdam Bank.

According to Pemex's new president, Pascal Gutierrez Roldan, **the $20-million will be used mostly for petrochemical projects, particularly a Pemex crash program to construct three anhydrous fertilizer plants.** They're to be located near Pemex refineries at Minatitlan, Salmanca, and Torreon.

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Rolls-Royce Takes Two Partners In Forming Atomic Power Concern

"Formalizing arrangements already existing" is the way in which Rolls-Royce, Ltd., of Britain describes the formation of Rolls-Royce & Associates, a new British joint venture in the field of atomic power. Rolls' partners are Vickers, Ltd., and Foster Wheeler, Ltd., British subsidiary of Foster Wheeler Corp. All three already are collaborating on developing a nuclear submarine for the Admiralty.

But the new enterprise, Rolls says, aims to be active in every area of nuclear power–including nuclear propulsion of aircraft, rockets, ships, and automobiles.

Rolls-Royce owns 52% of the company's initial capital of about $700,000. Vickers and Foster Wheeler each hold 24%. Rolls will supply four of the new enterprise's six directors, including the chairman; Foster Wheeler and Vickers will appoint one man each.

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New Trade Deal Allows Russians To Export Cars to West Germany

Under a new trade protocol that West Germany and the U.S.S.R. signed last week, the Soviet Union will export automobiles to the Federal Republic this year for the first time.

To start, **the Soviets propose to sell about 900 of their state-built "Volga" and "Moskvich" models to West Germans at an average price of about $1,200.**

West German business circles don't seem frightened by the prospect of competition from these two cars. But **car makers in the Federal Republic are reportedly very angry about Soviet plans–announced last week–to start building a Russian "Volkswagen" next year.** According to German engineers, the Soviet vehicle is a copy of the popular West German model–right down to its rear engine power plant.

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Italy Gets Ex-Im Loan to Help Finance Its Largest Power Plant

To help build the largest power plant in Italy–a $40-million, 320,000-kw. thermal station–the U. S. Export-Import Bank is loaning $9.3-million to Italy's giant private utility Edison Volta, subsidiary of Societa Edison of Milan.

The credit will be used to finance purchases of equipment and engineering services in the U. S. The largest single expenditure, according to Edison officials, will be for a $4.9-million boiler to be purchased from Combustion Engineering, Inc., of New York.

In Washington

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Administration Is Readying Plan For Mandatory Oil Import Curbs

The Administration is expected to announce by Mar. 1 a new mandatory program to restrict imports of crude oil and most petroleum products to about 10% of total U.S. demand.

Still at issue is the method of dividing import quotas among companies. **A six-man Cabinet committee is considering several variations of a plan that would give larger shares to established importers and less to companies that have little or no foreign investment.** The Justice Dept., however, in the past has objected to any specific market-splitting provisions.

Another problem is the importation of some petroleum products, especially residual fuel oil. The Office of Civil & Defense Mobilization is winding up a quick investigation of oil imports and is expected to rule again that the imports threaten to damage national security. But previously the agency has declined to include residual fuel oil in its findings.

A mandatory program would succeed the voluntary plan, which restricts the amount of crude oil and some unfinished products. The voluntary plan expires Feb. 28 and generally has been deemed a failure, mainly because a number of smaller companies are excluded.

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Small Business Investment Companies Exempted From "Public Offering" Filing

Small business investment companies will be exempted from filing "public offering" registration certificates with the Securities & Exchange Commission when they issue stock to small companies in which they are investing.

Adoption of that rule, completing government regulations for the operation of the small business investment company program, clears the way for the companies to begin operating. **The first SBIs are expected to be licensed next month.**

Under the law, SBIs can make equity capital available to small business through purchase of their convertible debentures. In return, the small company must buy stock from the SBI equal to 2%-5% of the capital provided.

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Rep. Mills Says Congress Will Balk At New Gas Tax Asked by President

The Eisenhower Administration got some bad news this week from Wilbur Mills, chairman of the House Ways & Means Committee. **Mills said Congress would not raise taxes on gasoline or levy a new tax on jet fuels as requested by Eisenhower.** This will deprive the highway trust fund of $723-million in revenue next fiscal year, and the regular budget of $51-million. In addition, it will throw a $241-million additional expenditure on the budget to make up a deficiency in the highway trust fund.

In other tax developments:

• Rep. Thomas B. Curtis (R-Mo.) is receiving support in the Treasury and in the Ways & Means Committee for bills that would increase taxes on mutual savings banks and savings and loan associations. About $100-million additional revenue may be involved. Curtis believes chances of adoption are good.

• Senate Finance Committee members predict that Chmn. Harry F. Byrd (D-Va.) will try to block a bill allowing tax deduction for pension plans of the self-employed. The proposal passed the House last year, but died in the Senate. It seems certain to get through the House again this year.

• Increased taxes on cooperatives will be studied by the committee later this year, with a good chance of adoption. The committee next week will begin hearings on taxation of estates, trusts, partnerships, and corporate reorganizations and distributions.

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Air Force Attaches New Restrictions To Communications System Contract

The Air Force last week awarded a prime contract to International Telephone & Telegraph Corp. and the Radio Corp. of America for development of a communications support system. The project, called the 48OL, is aimed at expanding and modernizing the Air Force's present $491-million worldwide communications system, which Pentagon strategists consider inadequate for the future.

Unprecedented restrictions have been clamped on IT&T and RCA to prevent them from cornering future hardware orders evolving from the project. The restrictions are the Pentagon's response to growing criticism of weapon system management, and provide a tipoff on a new policy for weapon system prime contractors.

IT&T and RCA are prevented from designing or engineering the new communications system so as to "accrue an advantage in subsequent procurement" over other electronic producers. The companies are directed to compete "where feasible" with other concerns for production of components. Most significantly, **the two companies are limited to a level of new business from the project "reasonably related" to the volume of Air Force contracts the companies have had in "prior years."**

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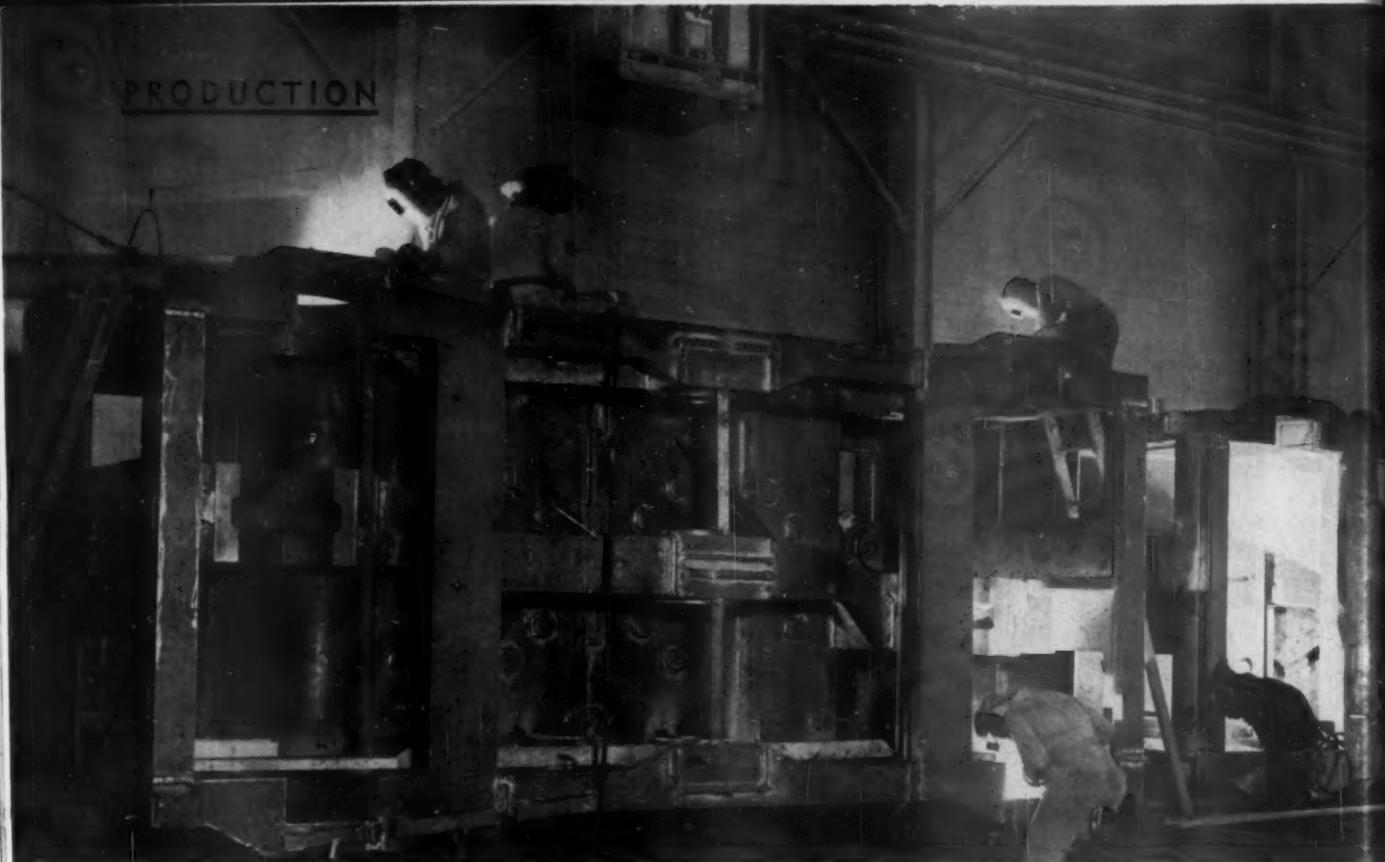
Sen. Murray Asks Power Study

Sen. James Murray (D-Mont.) has asked the Senate to provide $300,000 for an inquiry into the need for an integrated, interconnected nationwide power transmission grid. The study, urged by public power groups, probably would recommend construction of federal steam plants to back up federal hydro power plants as well as power lines to interconnect public and private power systems.



ON ASSEMBLY LINE in Detroit, welders swarm over partly finished beds for 1,000-ton presses. For R. C. Mahon Co., such jobs are

Welding Specialist Doesn't Duck

Shielding and work floor for Michigan atomic power plant may prove to be company's toughest job.

On the shore of Lake Erie north of Monroe, Mich., a steel capsule pokes 60 ft. into the air. The bottom of the capsule is 70 ft. below the earth. Buried deep inside the capsule's shell some day will be the nation's first fast-breeder nuclear reactor to generate electric power.

The below-ground part of the shell is sandwiched in concrete. To prevent deterioration of the concrete from the reactor's gamma rays, the concrete inside the shell is sandwiched between steel liners half an inch thick.

The capsule has been there now about a year and a half. The heat of the sun and cold of the night, summer and winter, have expanded and contracted the metal, working the mass of concrete and steel shielding inside back and forth like the chest muscles of a sleeping giant.

Radii that were 36 ft. when the steel building was erected now vary from 35 ft. 11 in. to 36 ft. $\frac{1}{16}$ in. Now there has to be a steel floor over the reactor "furnace room" that will move with the "sighing" of the building and yet protect every bit of a 5-ft. concrete floor above it from the gamma rays.

• **Tricky Work**—Early next month, the fabrication of this steel operating floor begins in the shops of the R. C. Mahon Co. of Detroit (picture).

It's a complex job, because it's not just a matter of selecting a plate and cutting it to fit. The steel used is an alloy of 1% boron—such an unusual melt that it took months to find a mill willing to tackle it. The thickness of the floor has to range from $3\frac{1}{2}$ in. to 14 in. So several plates are laminated by welding to form one integral structure.

When it's completed, the floor will weigh 500 tons. It will climax several years' work which Mahon took on with the routine attitude you could expect in a company nationally known for heavy weldments—but which it found to be very much like handling a red-hot rivet.

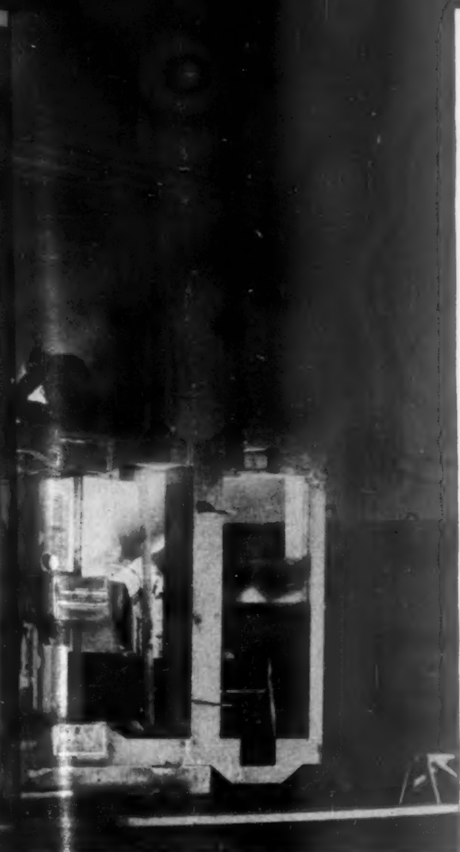
Engineering and fabricating the floor as well as the steel liners has been a prickly job full of exasperation and experience. It's a job worth maybe $400,000 to $500,000 gross to a company that has grossed as high as $47-million a year. It's worth a lot more than that in experience.

• **Handling Hard Ones**—A reputation for having done the toughest kind of weldments and other metal fabrication is Mahon's prescription for staying in a business where it competes with practically every other company that touches metal. Pres. Walter F. Sheetz rumbles around his cigar: "We can make anything you can see."

You can see the word "Mahon" on the steel skeletons of buildings over a large part of the Midwest. Hardly an automobile made hasn't been painted and dried in booths made by Mahon. Mahon's trademark, a white M in a red rectangle, is on the gates of the Eisenhower locks in the St. Lawrence Seaway. Massive machine tool bases, rolling steel doors, aluminum and steel siding, and metal in infinite forms come out of the Mahon shops. And somewhere along the line practically all of it has been touched by the welder's torch.

I. A Case of Knowhow

The R. C. Mahon Co., founded in 1912 as a roofing contractor and still an important fabricator of building materials and industrial equipment, now finds itself bulling around enormous weldments because it has had to learn how to keep a competitive edge. Much, and sometimes most, of its business is won in bidding where an edge of a dol-



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Hard Ones

lar or so a ton, if you've got the experience to produce at that price, will get the award.

In-plant welding saves time, and consequently wage costs, in erecting in the field. In certain fabrications, welding gives strength equal or superior to riveting, with less tonnage. There's a hooker, or course. When you're going to weld structural steel, particularly, the members have to be cut and shaped more accurately than when assembly is by rivets. So the premium is on know-how.

• **Assembly Line**—Moving through the Mahon plant now are fabricated structural steel girders for 33 bridges along a new Ohio freeway. These are being assembled on what Mahon people claim is the first integrated production-line system of bridge welding.

The key to the system is teaming up overhead cranes with two universal fixtures: one for assembly of steel members of any length and up to 3½ ft. wide, and one for splicing plates as wide as 18 in. and as long as 120 ft. When welding is required on both sides, the splicing fixture can be rolled over while holding the work.

The operation begins with cleaning the metal. Then the work passes 13 other stations, ending at a Mahon-conceived and built conveyorized paint spray booth that can handle the longest girders.

The sequence starts with the splicing of flange and web plates in the splicing fixture. Then the steel components are fed by crane in order of assembly to the long fixture, where they are fitted and tack-welded. Again the crane moves the work to support beams for automatic welding, layout, fitting, and the semi-automatic welding of stiffeners on both sides of the girder. Along the way, the girders have been fabricated with both automatic and semi-automatic submerged-welding.

• **Blend of Methods**—It is this use of known welding processes—and Mahon uses them all—in distinctive production techniques that characterizes the company's operations, rather than the origination of welding processes themselves.

Much of this is due to J. R. Stitt, in charge of welding research.

Twenty years ago, Stitt organized the country's first complete degree curriculum in welding engineering at Ohio State University, and he has been with Mahon since 1945. Stitt says this new production method makes weldments for bridges less costly. Welded structural members for steel bridges have been in favor among many states, but until now the assembly cost has been a drawback.

• **Real Cost-Cutter**—If Mahon's production-line welding is more economical, and huge sections of the bridges can be fabricated in the plant, then in-field erection by bolts can be simple and fast. The entire procedure could make bridges cheaper to construct. As the national highway program moves into high gear, there are going to be a lot of bridges built. And Mahon is a company that consistently has grown from what it has built in the past.

II. To Learn by Doing

That's how Mahon got into such a preposterous involvement with a steel gamma ray shield that will yield little profit and will give the company engineers experience they may never find use for again.

Mahon's large weldments in the past have included such things as 25-ft. by 30-ft. wind tunnels; 16-ft. diameter bypass pipes for Detroit's water works; 150-ton-capacity ladle cranes for open hearth steel furnaces; a 100-ton turbine base; gantry cranes and overhead cranes of various sizes.

• **Deceptive Job**—Late in 1956, Commonwealth Associates of Jackson, Mich., asked Mahon to bid on about 900 tons of welded steel shielding for the Enrico Fermi Atomic Power Plant near Monroe, Mich. When he got the award, J. W. Ault, manager of Mahon's Steelweld Div., and his associates thought it was a "normal" job, although somewhat small. The division has grossed $5-million a year, and a job of this size generally would take only six to nine months.

The below-ground steel liners have been in for a long time, but not until now can Mahon begin work on that 500-ton steel operating floor over the reactor core through which the reactor vessel projects like the top of a derby hat.

• **Delays Pile Up**—Long ago, the contract had to be converted from fixed-price to cost-plus, else Mahon would have gone deep in the red on the whole project.

There were delays while the scientists of the Power Reactor Development Corp., designers of the Fermi plant, learned more about a fast-breeder reactor, then changed specifications. There were delays while Mahon engineers adapted the new specifications to their particular fabrications. And there was a long delay in finding a mill to pour the 1% boron steel.

Normally, when boron is used in steel (to harden it), it is about one-hundredth of 1%. Mahon's purchasing men scoured the country, among the biggest and the smallest basic steel producers, without finding one willing to take an exceedingly rare and difficult job that had no follow-up orders attached to it.

In the end, Commonwealth suggested a source: Electric Steel Foundry Co. of Portland, Ore., which is expected to deliver the boron plate to Mahon the first week in March. Ault's people don't know how long it will take to fabricate the floor and get it in place; they've never done anything quite like this before.

• **Troublesome**—Meanwhile, there's another delicate welding job to do for the reactor—the fabrication of thick steel seals. There has to be a 1-in. gap between the secondary shielding (the steel liners surrounding the concrete) and the operating floor to accommodate the temperature-induced movement of the structure. But the gap has to be designed and sealed in such a way as to protect the concrete from the gamma rays. The solution, finally, was fairly simple; gamma rays do not turn corners, so the gap has an elbow in it.

So the work now is on welding the seals, which vary from ½ in. to 4 in. thick.

• **Value of Lesson**—As far as Mahon people know, there are no plans for any other fast-breeder reactor power plant to be built in this country. So the question comes up: What good will the three years' experience be to the company? Sheetz shrugs and says, "I think we all know that atomic power is here to stay."

And a comment from his executive vice-president, Wallace Herdlein, puts

the whole Mahon story in perspective: "We're opportunists. . . . What we have to sell most is experience."

III. Paid for Brains

Herdlein, in addition to being the No. 2 man in the company, runs the Industrial Equipment Div., which is one of the company's oldest activities and largest revenue producers. It, too, has made some notable use of welding.

There was, for example, a fume collector system that was installed in an aluminum processing mill. It involved welding plate and duct work ranging in diameter from 4 ft. to 17 ft. This was a job calling for 4,000 tons of duct work and 3,800 tons of fabricated structural steel at a cost of $3-million.

Some of Mahon's industrial equipment jobs have run even higher, yet the division will take a job as small as $5,000. One of the company's divisions fabricates and sells rolling steel doors that sell for $800 to $900. There is a Building Products Div. (insulated metal walls, metal siding, roofing, and flooring) whose general manager says: "No job is too small. We'll sell somebody a single piece of roof deck if he wants it, and we'll take it over in our own car if there's no other way to get it there."

• **Spectaculars**—The only thing common to Mahon's varied ventures is metal—generally in spectacular uses.

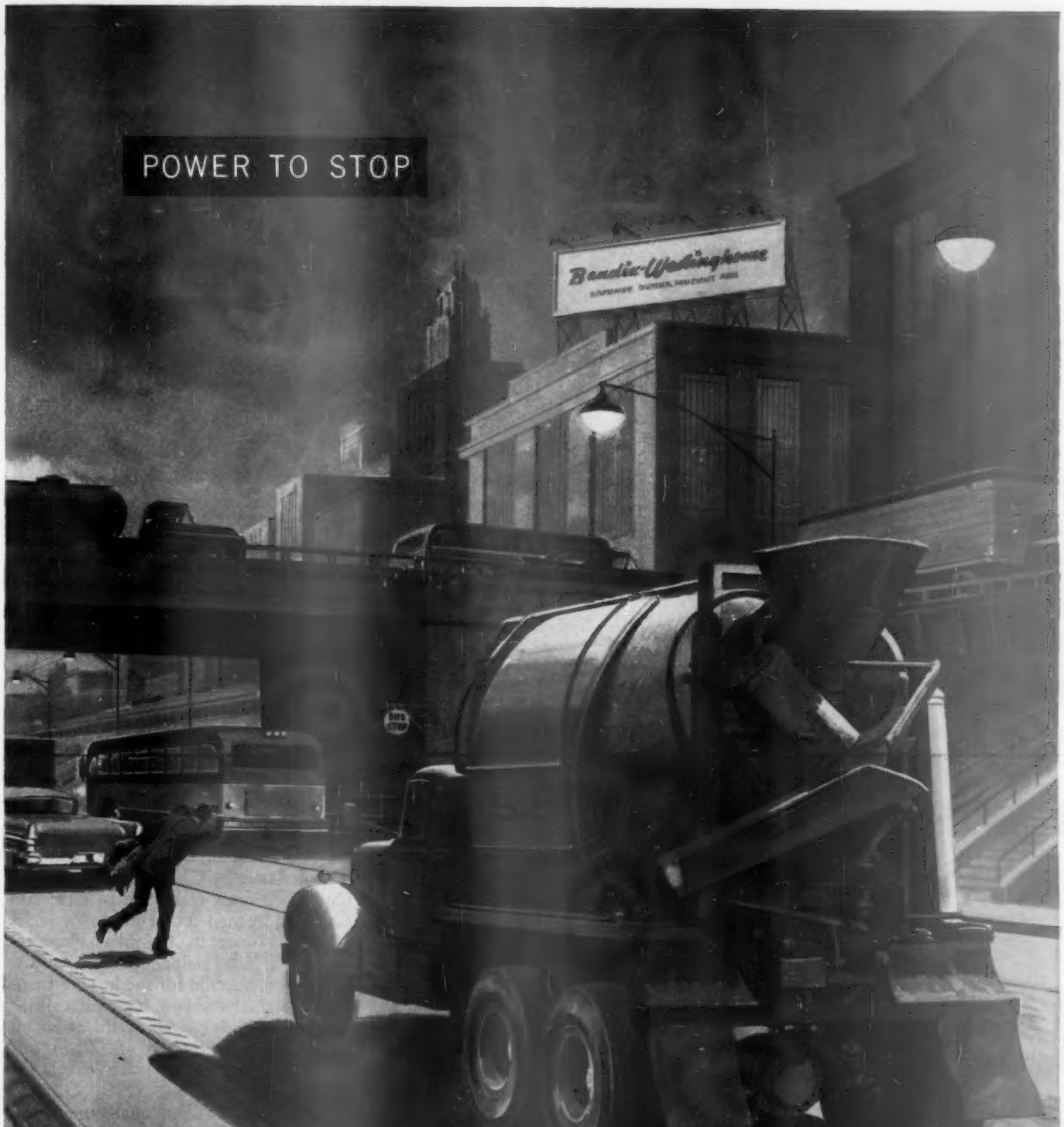
Nearly 30 years ago, the company erected the world's largest and heaviest arch trusses for the Cincinnati railroad station. Other fabricators at the time thought Russell Mahon, the company's founder who died in 1956, was just contracting for trouble in trying to fit together the heavy trusses far above ground. What he did, though, was to assemble the trusses in the yard back of the Mahon plant—making the necessary fixes—before disassembling the units and shipping them to the job site.

Now there is an equally spectacular job going up on Detroit's waterfront—what is claimed to be the country's largest exhibition hall, covering 17 acres. For this project, Mahon fabricated 20,000 tons of structural steel.

Mahon can build a complete plant from the ground up. The proof is its own works, fronting on East Eight-Mile Road, Detroit's city line, and running back more than three-quarters of a mile. The company built the plant.

Tricky welding jobs, such as the reactor shielding, keep coming up; and inventive ideas for faster and better weldments, such as the bridge production line. "We think," says Herdlein, "that we can take a special job and, because of a wide range of engineering and manufacturing experience, we can do it faster and more economically.

"Our problem is how to sell brains and get paid for it." END


POWER TO STOP
Bendix-Westinghouse

Faster, Cheaper Process Cuts Oil Drilling Costs

Gulf Oil Corp. plans to drill more dry holes—and save money by doing it. Gulf's dry holes won't be the kind that don't bring in oil, though.

The company has improved the air-gas drilling process, which uses compressed air rather than water and mud mixtures to blow drill cuttings out of the hole. Main advantage, says Gulf, is a much faster drilling rate. Air-gas rigs have driven holes at 1,000 ft. per day, where water-circulated drills could do only 175 ft. Even at higher speeds of air-gas drilling, drill bits dig 10 times as far before they wear out, according to the company.

The trouble with air-gas drilling up to now has been that it works only if the drill doesn't hit water-filled porous rock or sand formations that let the compressed air escape and the water come in to turn the drill cuttings into a gummy, almost immobile, mass.

Gulf has licked the problem by injecting into the hole a special gas that reacts with the water and forms an impermeable wall around the well bore. Gulf claims the process can cut drilling costs up to 25%, prefers to call the technique "water shut off" rather than dry-hole drilling.

PRODUCTION BRIEFS

Rare rhenium metal is being produced commercially by Chase Brass & Copper Co. Rhenium's resistance to wear and corrosion at high temperatures—it melts at 5,756F—and its top-rated electrical properties have helped bring a 400% increase in demand for the heavier-than-gold metal in the past few years. Price is its biggest drawback: 1 lb. of metal powder costs $680; 1 lb. of .001-in. foil costs $2,125.

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An underground headquarters in the Rocky Mountains, to cost $25-million, has been proposed for the Air Defense Command of the Air Force, now located above ground near Colorado Springs. The present setup is vulnerable to ICBM attack and lacks adequate space. Congress has been asked for $10-million to get the mining started.

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Data-reading telephones are being field-tested by Western Electric Co. Hooking up data-reading and transmitting devices to telephones would allow field and branch offices to dial their company's data-processing center and feed in business information from punched cards or directly from the branch office's own processing equipment.

NEW PRODUCTS

Cast-Iron Alloy Outdoes Steel

General Motors research teams have developed a new cast-iron alloy that produces castings tough enough to replace common steel forgings. The new alloy came out of a research program focused on finding a way to produce cast malleable iron with properties of heat-treated materials. GM has dubbed the successful result CentraSteel.

The metal mix in CentraSteel turns common foundry practice topsy-turvy. It is high in silicon content and low in carbon—just the opposite of most malleable cast-iron compositions. Moreover, the alloy is relatively insensitive to sulphur—a bugaboo for most high-performance cast iron and steel. The trick in the mix is most probably the addition of 0.01% boron. Boron, even in trace amounts, greatly affects the crystal structure—hence the mechanical properties—of iron alloys.

W. G. Larson, of GM's Research Laboratories, reported the new material at a regional Conference of the American Foundryman's Society. He said that a few foundry problems for high-volume production remain, but the material appears to be superior to steel in its casting qualities, yields equivalent strength, yet is easier to machine. In Larson's opinion, CentraSteel is usable where cast materials are now unacceptable because of brittleness.

NEW PRODUCTS BRIEFS

Durable, lightweight containers, marketed by the National Vulcanized Fibre Co. of Wilmington, Del., are designed to take the worry out of shipping delicate instruments and equipment by air. The luggage-like pressed fiber cases are of three types: the standard, or padded, kind lined with urethane foam; a dunnage board arrangement that is slipped into the case with the equipment strapped on; and special spring mounting systems for the more delicate instruments.

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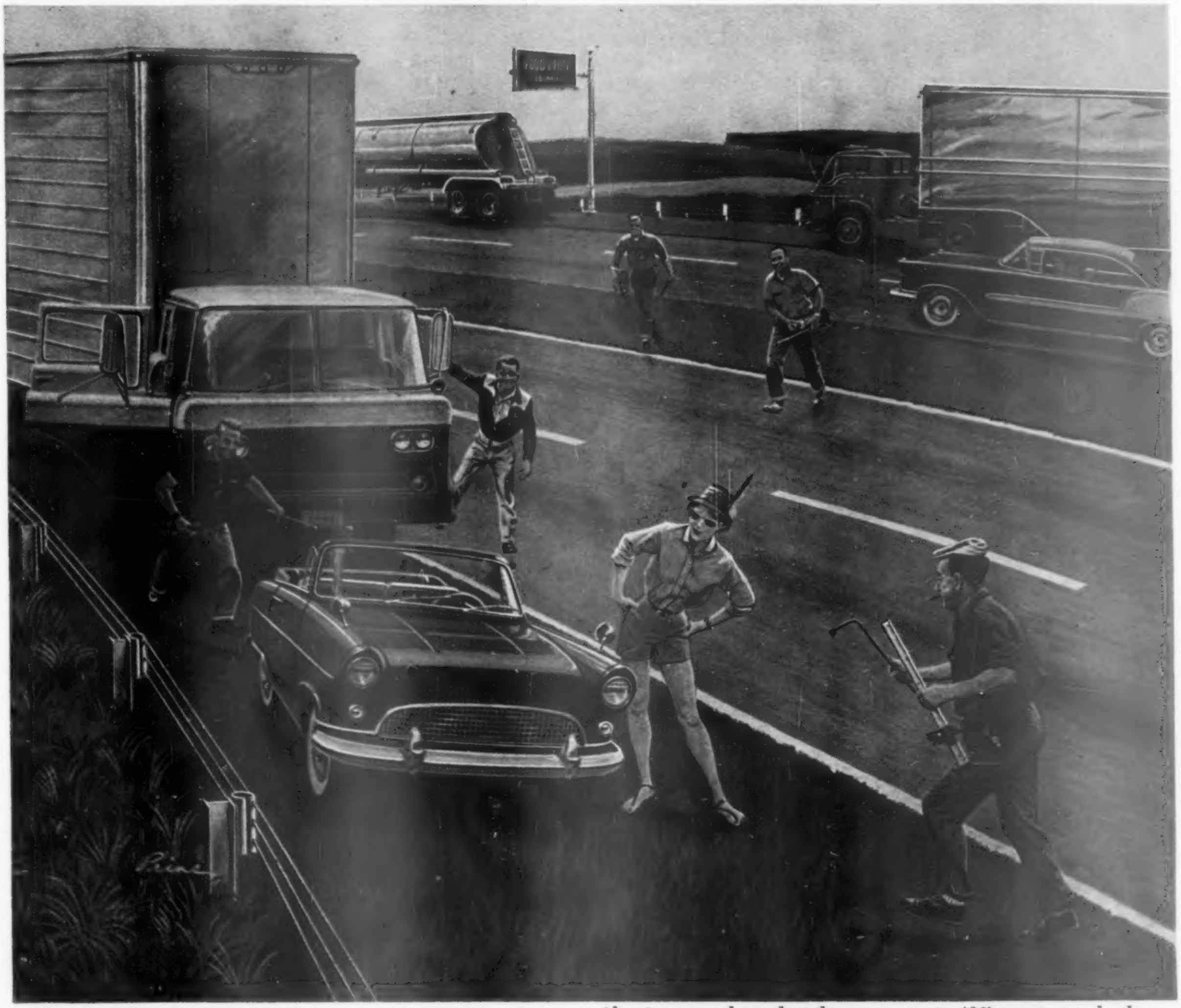
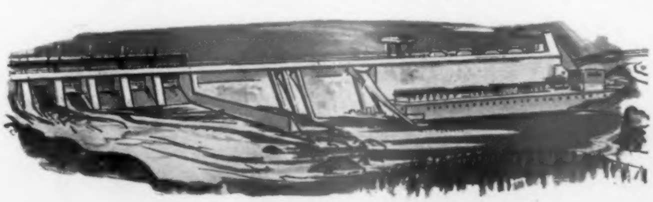
A floating action type of hammer that reduces bounceback by two thirds and appreciably reduces the fatigue of a day-long stint of hammering is being introduced by Ramset Fastening System, of the Olin Mathieson Chemical Corp. The hammer head is not rigidly attached to the handle, but is suspended in a special housing with energy absorbing materials to soak up the shock. Price: $9.95.





INTERNATIONAL OUTLOOK

Secy. of State Dulles' second attack of cancer is bound to limit his role as the West's chief negotiator in the Berlin crisis. His illness— even without further medical complications—is likely to hurt the prospects for progress at a Big Four foreign ministers' conference, which the Allies this week formally proposed to Moscow.

At the least, Dulles' condition increases the importance of Prime Minister Macmillan's mission to Moscow to sound out the views of Soviet Premier Khrushchev. And, from now on, Washington will have to be the center for further preliminary talks among the Allies.

Dulles is the best man to bargain with the Russians over Germany. Washington officials, from Pres. Eisenhower on down, and West European leaders agree on this. Dulles personally has dominated the formulation of Western policy on Germany. Just as important, he has a reputation for toughness. Thus, Washington observers point out, Dulles could offer concessions without appearing weak either to Russians or to the West.

Washington hopes Dulles will recover sufficiently to handle personally the negotiations—though no one is banking on this. Meanwhile, two Under Secretaries of State, Christian Herter and C. Douglas Dillon, will carry on the work of the State Dept.

Still, odds are against Dulles being able to continue in active service much longer. That puts the Allies in the difficult spot of trying to deal with the Russians against a deadline.

Nervous, almost fearful, reaction abroad to Dulles' illness underlines the importance of his position in Allied planning. Paris and Bonn are worried that any curtailment of Dulles' influence in policymaking may lead to a softer U. S. policy on Germany. They think that his own proposals for a more flexible Western policy go about as far as is safe in offering concessions.

The immediate burden for sizing up Moscow's tactics and making clear the West's firm position rests on Macmillan. Last week's speech of Sen. Mansfield (D-Mont.), favoring direct talks between East and West Germans, won't help Macmillan's trip. Along with Dulles' illness, it opens the way for Khrushchev to continue attempts to divide the West.

In any case, Macmillan's main job will be to test whether Moscow is simply trying to keep the Allies off balance in Germany—or is ready, seriously, to negotiate a German settlement.

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Cairo is becoming more and more disenchanted with Moscow's role in Arab affairs. Pres. Nasser recently cracked down on Communists in Syria (part of Nasser's United Arab Republic). In the past month, he has attacked fast-growing Communist influence in Iraq. Now Cairo, with no holds barred, is blasting Moscow for allowing mass emigration of Communist East Europeans to Israel. The Arabs maintain—as they have for years—that large-scale immigration will force the Israelis, sooner or later, to expand into neighboring Arab states.

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Britain is slowly beginning to pull out of its mild recession. New orders for goods are on the upswing, says the Federation of British Industries.

INTERNATIONAL OUTLOOK (Continued)

However, orders specifically for export are still declining. And nearly 80% of manufacturing companies are operating below capacity.

Main trouble spot for the Macmillan government is continuing unemployment. Even a real business upturn won't bring quick relief. Many plants have modernized equipment to boost worker productivity—and thus aren't likely to expand their labor forces rapidly.

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With most of its dictators jobless, Latin America is riding the crest of a democratic revival. Liberals and moderate leftists, in Caracas last week for Pres. Betancourt's inauguration, talked big about their plans. They want to exclude the remaining dictatorships—Dominican Republic, Nicaragua, and Paraguay—from the Organization of American States.

Even so, the most pressing problem for Latin countries now is how to make ends meet and how to create political stability. Biggest danger to stability is not military coups, but labor unrest. That's evident when you look at three countries—Cuba, Venezuela, and Argentina—that have sent military dictators into exile.

In Cuba, Fidel Castro is now premier, as well as rebel leader. He appears to be toning down his earlier radicalism, and tackling somewhat realistically the problems inherited from ex-dictator Batista.

He's getting the sugar crop—Cuba's main money earner—to market. He's overriding criticism from fellow rebels and reopening gambling casinos to help draw tourists back to Havana. He is slowing his much-publicized, though vague, plans for agrarian reforms.

Still, Castro soon will have to satisfy, rather than stall, labor's big demand for a "new deal." Workers already have stirred up troubles in the sugar industry, and in two U.S.-owned companies—International Telephone & Telegraph and Cuban Electric (subsidiary of American & Foreign Power).

The new Venezuelan government, by contrast, seems to have a firm grip on domestic problems. Last week's oil price cuts (page 26) could lower government revenue this year. But tax hikes on incomes of such big oil operators as Creole Petroleum will more than offset this. Crude output is now 3-million bbl. daily, an all-time high.

Unemployment, especially in Caracas, will be a headache in months ahead. Pres. Betancourt will have to speed social and economic reforms to keep the unions happy.

Argentina's Pres. Frondizi is bracing for new attacks next month from Communist and pro-Peron labor unions. At a plenary meeting last week, unions bitterly denounced the government. Their main demands: release of 1,500 arrested workers, no more cutbacks in the top-heavy government bureaucracy, emergency wage boosts.

Frondizi has a strong cabinet team, reinforced recently by the appointment of a new, tough-minded labor minister. He is trying to soothe widespread complaints against his austerity program by ordering the "strict application of state-of-siege laws to profiteers and hoarders of foodstuffs."


TOP MANAGEMENT TAKES ON ANOTHER CHORE

Pros and Cons of a Steel Strike

A work stoppage is less inevitable than it seemed a few weeks ago, but the odds still lean that way. Management and labor have a backlog of issues to be fought out.

The pros and cons of a steel strike are being batted about in Pittsburgh these days with surprising intensity. A few weeks ago, hardly anyone could be found to take bets—a prolonged strike next July seemed so inevitable. But today if you want to place a bet on the likelihood of a strike, you'll find some well-informed people willing to take your money, though heavy odds still favor a walkout.

There's no conspicuous reason for the change. But more and more people are inclined to credit outside factors, beyond the control of either the steelmakers or the United Steelworkers, with the ultimate shaping of next June's bargaining. They cite the McClellan committee revelations, the cost-of-living index, labor legislation pending in Congress, and proposed investigations of business by both Congress and the Justice Dept. as issues that could influence public opinion to the point where it might push bargaining one way or another.

• **Against a Strike**—Both the union and the industry are well into a war of institutional advertising that recognizes these issues and seeks to influence their outcome. But the battle of "paper bullets"—and the concern it reflects for public opinion on the part of the steel antagonists—isn't the whole argument in favor of a no-strike settlement. The "cons" also point to these factors:

• The men who'll have to walk the picket lines aren't likely to relish the idea. Steel employment dropped slowly all through 1957, heavily through the first half of 1958. Many of those who stayed on the payroll worked quite a few three- and four-day weeks. Few worked overtime. And, steel employment isn't back to 1956 totals.

• The union is talking about organizing steel's white-collar workers. The campaign began more than a year ago but accomplished so little that USW now refers to that phase as spadework for this year. A long, bitter strike seems an unlikely recommendation for unionism to the white-collar group, which has refused organization for almost a quarter of a century.

• The need to better the United Auto Workers—an ever-present background factor to steel bargaining—seems easier to satisfy this year. Auto workers get 7¢ this summer, which may indicate the USW minimum. On major fringes and wage rates, the steelworkers have been ahead of the autoworkers for some years. So the 1959 steel package doesn't have to be at all huge to keep the lead.

• Both steel management and steel labor are pretty uncertain about their standing with the public. Each blames the other for the inflation to which both have agreed over the past decade. Each is scared stiff that the public might fix the blame on it. Steel management abhors the idea of price controls, and steel labor certainly would not welcome a wage freeze. It's possible, some argue, that these fears and uncertainties might restrain both parties enough to yield a no-strike settlement.

• **Pointing to Strike**—That's the kind of reasoning you come across these days when you discuss the impending steel bargaining with people who follow the industry closely. But on the scales, the arguments pointing to a strike still outweigh those favoring peaceful settlement. If a new contract had to be written next month, a strike would be certain. Why? Here are some of the reasons given by men close to the steel bargaining:

• Both parties are strike-prone. They've had five in 14 postwar years—the period when their relations were most mature.

• Productivity is the key issue. The antagonists have vested interests in almost totally opposed theories. And there's no agreed-upon formula to measure it. It's hard to imagine a compromise on this issue in 60 days of negotiation.

• Steel's "ability to pay" will be almost embarrassingly evident. Earnings will soar with a high operating rate and more efficiency. Pre-tax earnings, to which USW invariably points, won't show the heavy erosion of accelerated amortization that they have shown in every negotiation since 1951.

• Steel will be under intense customer pressure to hold down the wage package. Its customers not only don't want to pay more for steel—they don't want to pay more for labor, either. But they would have to if steel should grant a fat wage boost.

• **New Bargainer**—These factors aren't likely to change between now and June 30, when the present steel contracts terminate. But the most intriguing pre-strike speculation centers around changes in the cast. The old, established format of steel bargaining is gone; in 1959, it'll be almost entirely a different show.

Steel's principal bargainer will be new to his job. R. Conrad Cooper, an executive vice-president of U. S. Steel, will head the industry group. He comes to the bargaining table with a broader assignment than that of his predecessor, John Stephens. And he has already indicated U. S. Steel's belief that the industry must stand firm against union wage demands to halt inflation and to avoid pricing steel out of various markets.

Cooper will also face a changed David J. McDonald, USW president, who has assumed a more militant posture as the parties jockey for position. The silver-haired union president has quieted most dissidents within the union since the USW convention last fall, but the union is far from settled down. There seems to be a trend toward more militant locals and away from a strongly centered international. His opposition, reportedly, has developed a "wait and see if McDonald can deliver" attitude, which may act as a spur to his efforts.

McDonald may have to reconcile this internal pressure with a more basic problem. This year, he will be much closer to the need for a decision on a philosophy entirely new to the USW, which is:

Should the USW—as did the United Mine Workers years ago—opt for a smaller—and very highly paid—membership, or should it strive to maintain the maximum number of steelworkers and members?

This issue is not yet nearly so pressing in steel as it was in coal when UMW Pres. John L. Lewis decided on a smaller, higher-paid union membership. But the steel union will have to decide someday as the industry continues to automate and to cut the labor content of a ton of steel.

• **Old Issues**—The negotiators will have three years' accumulated problems to settle. At least until public opinion becomes more compelling than it is now, neither side would consider renewing the current contract any more than either would consider letting the other write the new agreement.

The accumulated frustrations, grievances, and irritations have people in the industry upset. Three years' thought has gone into new programs, new remedies for old ills, and new areas for bargaining. It will take time to talk these out.

• **Competitive Pricing**—There'll be a

lot of industry talk about steel pricing itself out of markets—abroad, at home, and in competition with alternate materials. And, it won't be just talk, either.

Producers of oil country goods are having trouble in foreign markets. Wire producers lost business to European competitors in 1958. Stainless producers have seen aluminum make progress with automotive customers. Cold-rolled sheet people are worried about aluminum bumpers on cars.

• **Union Retort**—Thus far, at least, such talk sets the USW crowd's teeth on edge. For years, it has been USW dogma that steel could have raised wages and cut prices simultaneously. There's not the slightest indication that the union has changed its mind.

When steelmakers argue that soaring employment costs have cut our exports savagely while encouraging imports markedly, union people snort. They agree that both things happened in 1958. But, union people argue, for every job a domestic steelworker lost to imports last year, he gained almost two from our exports. The first nine-month figures show just that.

• **Sharing the Reward**—The union and the companies aren't even in the same room on costs vs. output. Steelmakers insist the former have outrun the latter by three to one for almost 20 years. The current contract was to have ended that—and may have done so. But the industry says only that the contract put employment costs up shockingly. It credits the huge gains in efficiency since 1956 to heavy capital spending.

But that's simply not good enough for the USW. It doesn't see the industry's figures—no outsider does. So it insists on its fair share of an unknown quantity. On that alone there could easily be an eight-week strike.

Meany's Welding Job Holds Up

The atmosphere at AFL-CIO's executive council meeting in Puerto Rico attests to how well he has managed to unify labor, despite ominous predictions of earlier years.

George Meany is a plumber who paints like Grandma Moses. Canvases on the walls of his office in the AFL-CIO Bldg. in Washington attract attention—and comment. The president of the federation of 13-million unionists seldom bothers to tell anyone that the paintings are his own work.

Few who do not know him well link the paintings to the ham-fisted, 220-lb. labor leader. But the deftness of touch, the patience, and the painstaking care demonstrated by the pictures reflect the traits that have made it possible for Meany to hold a straining AFL-CIO together for more than three years.

The midwinter meeting of the AFL-CIO executive council, which opened in San Juan, Puerto Rico, this week, demonstrated how effectively Meany's combination of plumber's bluntness and painter's subtlety has worked in the federation's trying first years. Although the elements of serious trouble could be found in the council agenda, for the first time since 1955 they apparently posed less of a threat to the internal peace of the federation.

• **Man in Charge**—When AFL and CIO merged in December, 1955, everybody knew difficult times were ahead. Two rival union forces had to be blended into one united movement. Meany was the obvious choice to do it, as president of the AFL.

Since then, Meany has concentrated on a campaign to end feuding within the federation, giving it high priority on his time—on the assumption that he must solve internal AFL-CIO problems or there will be no federation.

He has had considerable success, although AFL-CIO is still a massive body of unions in blocs that do not naturally belong together. Old rivalries and jealousies persist, and divergent interests and conflicting policies frequently cause deep stresses. But definite progress has been made.

• **Much Accomplished**—The fact that the House of Labor is still standing is proof of that. A number of labor's leaders predicted in 1955 that AFL-CIO couldn't stand up, its foundations intact, through the second regular convention scheduled for the fall of this year. Some say, even now, that splits might develop before then. But, generally, there is growing optimism. There is a feeling that Meany has accomplished much of what he set out to do.

As one close observer put it, he has welded the hyphen in the AFL-CIO.

In doing so, Meany has lost some old friends, and won some new ones. He has alienated some in the crafts who complain he pays too much attention to industrial unions—and is too sympathetic. On the other hand, one political specialist from the old CIO complains that Meany "downgrades" AFL-CIO's political activities; an economist protests that he "offers us no direction" in spelling out labor economic theories; and others complain that Meany wasn't around when the Senate Labor Committee held hearings on the important Kennedy-Ervin labor reform bill.

But, with all the grumbling, there's a recognition of the big role Meany has played in keeping philosophic and other differences from erupting into dangerous troubles for AFL-CIO.

• **Strength in Unity**—In the opening days of the executive council meeting this week, there was talk of discontent over job jurisdictions, but it seemed to be more for bargaining purposes than a result of sincere disaffection. Behind threats and warnings was the inescapable fact that nobody in AFL-CIO really wants a ruction that would divide and weaken the labor movement. Even feuding craft and industrial unions want the support of the merged federation.

One craft leader put the reason for this bluntly: "When employers are getting together, it's no time for us to spread ourselves thin."

• **Solid Front**—To the executive council members—the 29 top leaders of AFL-CIO—and to officials of many of the federation's 135 unions who joined the council in San Juan for business and winter sunshine, being "solid" at a time of tightening employer ranks means:

• Harder work to reconcile jurisdictional differences between craft and industrial unions. At midweek, Industrial Union Dept. and Building & Construction Trades representatives were trying to resolve old job disputes and to set up more effective machinery for avoiding new hassles.

• Toning down the federation's past ultimatums on corruption and racketeering—not because the council is any less against crime and unethical behavior in unions now but because there is a growing feeling that ousting unions isn't an effective solution. This does not mean, however, that no action will be taken against unions that refuse to cooperate with AFL-CIO clean-up efforts.

• Calmness and deliberation—a moderate approach—on other internal problems.

In its first sessions, the council received noncontroversial reports that its no-raiding machinery is working effectively on plans for continuing political action with a $500,000 national budget in 1959. It placed the Jewelry Workers under a trusteeship; referred to a special committee an application by the International Longshoremen's Assn. for readmission; and endorsed the Kennedy-Ervin reform bill. Speaking for the federation, Pres. Meany said the Kennedy-Ervin bill would not be acceptable if its Title VI, which calls for Taft-Hartley changes, is dropped.

• **Well Prepared**—Meany, at his best as a man with a big cigar in a small conference, had done his work well, in advance, to calm down some explosive situations. When a problem comes along, Meany seldom calls a meeting. Some AFL-CIO leaders complain he

doesn't consult others often enough. Instead, he talks bluntly to some, deals subtly with others in "social" lunches or dinners or on the golf course.

For instance, Meany recently met privately with Maurice Hutcheson, president of the Brotherhood of Carpenters, to lay out in blunt words the situation involving the AFL-CIO and its 850,000-member affiliate whose leaders are charged with violations of federation codes of ethics. In effect, Meany said that although a few want AFL-CIO to get tough with the Carpenters, the council would be willing to meet the Hutcheson union part way by delaying any serious punitive moves in return for an answer to AFL-CIO's charges of wrongdoing.

Similarly, Meany timed a short vacation in Miami Beach to coincide with meetings there of the Building & Construction Trades Dept. and the Metal Trades Dept.; because he was at hand, unofficially, he was able to huddle with craft leaders and to smooth some ruffled feathers.

• **Indispensable Man?**—Not many in AFL-CIO ranks could do it so well—if any could. That's one worry in the federation today, with Meany approaching 65 this August. If Meany, not very well recently, should step out, who could replace him?

It would be hard. Not many others would be equally acceptable to both the crafts and the industrial unions. Certainly, Walter Reuther, former president of the CIO, wouldn't. For instance, Meany was unable to reach San Juan for the opening session because of illness. For a time there was concern over having to select one vice-president of 27 as presiding officer, giving him first vice-president status. The problem was adroitly sidestepped by Secy.-Treas. William Schnitzler, who took over unofficially. He said, laughingly, that there was no presiding officer and just began talking and kept on.

Meany's advantage is that his background is in the crafts but he is able to see, and understand, the industrial bloc's viewpoint. This is a rare talent in AFL-CIO. Moreover, Meany is a man everybody believes to be completely honest, and to call his shots as he sees them. And, importantly, he is a politician with long training in the field when he served as head of AFL in New York City. He knows the value of compromise and uses it—as in the Hutcheson case.

There is no reason to expect Meany to retire soon. More than anyone else, he would recognize the dangers ahead for AFL-CIO if he did. But, it's an indication of the success of his leadership that worries are already being expressed about what could happen without his guidance. END

The day the water flowed like bourbon

See heah, Doctor suh, Ah'm not expending twenty-five dollars an hour just to lie on this couch and *tell* you about the disaster. I want you-all to help me *forget* it.

Well, how would you like to be the gentleman responsible for pourin' fifty thousand gallons of aged Kentucky bourbon into the Carrie Nation Creek?

No, Ah didn't turn the wrong valve. But I'm the distillery official who bought the electrical control cable that went out of whack and didn't activate the *right* valve. Everyone else said be safe . . . be sure . . . buy Okonite control cable. But no. I knew better. Look at the money we were goin' to save using a product of the Adequate & Lotscheaper Cable Company.

We saved it all right. An' then —whoosh!

Suh? . . . What do you *think* happened? Man, they *really* gathered at the river that afternoon. Everyone fo' ten miles around, ah reckon. They brought bowls and basins, buckets and Bathinettes. You couldn't rent a rowboat that afternoon for less than thirty dollars an hour.

The mayor swears to this day that a ten-pound catfish jumped into *his* boat and asked him fo' an ice cube.

Suh? . . . No, I'll be all right. Just let me use that hanky a moment.

Well, that evenin' things got so bad that the Governor declared our county a disaster area and the Red Cross moved in with two tank trucks—one filled with black coffee and the other with Bipso Selzer. And the next morning there were only about two people in the whole town who were capable of transactin' business.

Ah was one . . . and the other was the first gentleman I sent for after the disaster—our Okonite representative.

Fired? No, suh, they did worse than that to me. They stripped me of mah commission. Ah'm the only Kentucky *private* in all the U.S.A.

THE OKONITE COMPANY
Subsidiary of Kennecott Copper Corporation
Passaic, New Jersey

where there's electrical power . . . there's **OKONITE CABLE**

6541

The Atlas intercontinental ballistic missile, launched into orbit Dec. 18, 1958, is shown starting its journey of millions of miles as it rises from a launching pad at Cape Canaveral, Fla.

HOW REVOLUTIONARY BENDIX TOOL CONTROL SAVES TAXPAYERS MONEY ON ATLAS MISSILE

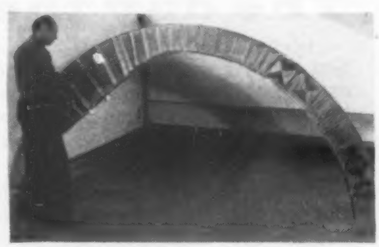
The highly successful Atlas missile, made by Convair for the Air Force, is a prime example of how the Bendix* Numerical Control System for machine tools saves time and money for taxpayers. This new tool system literally turns blueprints into finished parts.

One of the production requirements on the Atlas is to transform a 3-inch thick, 500-pound solid aluminum plate into a ten-foot by five-foot half circle shape weighing 49 pounds and forming the missile's thrust bulkhead (see picture at right).

Machining time by conventional methods would be 135 hours. Use of the Bendix control system by H. & B. American Machine Company, Inc., of Indianapolis cuts it to 60 hours—a 55% saving. Conventional tooling costs would be $9,500 versus only $5,800 for numerical control milling. And H. & B. required only 40 days lead time to deliver the first finished product as opposed to 60 days.

The procedure is revolutionary. Process sheets are prepared listing the Atlas bulkhead's dimensions, sequence of cuts to be used, and other critical data. These facts are then key-punched into IBM cards which, in turn, are fed into a Bendix G-15D digital computer. It digests the information, calculates the best way to do the job, and punches a coded answer on a plastic tape. Mounted in the system's machine control unit, this tape triggers the milling machine into operation and automatically controls its every move until the finished bulkhead is produced.

Bendix Numerical Control Systems have accumulated more production machining hours than any other continuous control system. They are installed on milling machines made by Kearney & Trecker, Ex-Cell-O, Pratt & Whitney, Heald, Van Norman and others. Key missile and aircraft firms are saving thousands of vital man hours and dollars by reducing tooling and machining time.



Checking dimensions on Atlas thrust bulkhead which was machined by Bendix numerical control on a Kearney & Trecker milling machine.

Use of Bendix Numerical Control Systems is widespread—and growing every day in industries both large and small. For specific information, contact the Industrial Controls Section, Bendix Aviation Corporation, 21820 Wyoming, Detroit 37, Michigan.

*TRADEMARK

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In Labor

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Rail Industry Prepares Attack On "Ruinous" Union Work Rules

The railroad industry is preparing to take a determined stand this fall against "ruinous" union work rules that cost carriers $500-million a year, the industry contends.

A three-year moratorium on work rule changes ends Nov. 1. At that time, according to Daniel P. Loomis, president of the Assn. of American Railroads, **carriers will unite in a fight against "featherbedding—pay for work not done, for services not performed."**

The industry would like Pres. Eisenhower to appoint a commission to study "outmoded" rules—some dating back to 1919—and recommend new standards.

Although the Brotherhood of Locomotive Engineers said the commission proposal would be given serious consideration, other rail unions are wary of it. A spokesman for the Brotherhood of Railroad Trainmen commented that any dispute over work rules "is a matter for railroad men only, for railroad management and unions; there is no reason for politicians to get into it."

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Textile Union Seeks 10% Pay Boost In Northern, Mid-Atlantic Mills

The Textile Workers Union of America will ask mills in New England and the mid-Atlantic states to boost pay 10% when contracts run out in April and May. The union has agreements covering 75,000 workers in 300 cotton-rayon and woolen-worsted mills in the area.

Their last raise was 8½¢ an hour in cotton-rayon mills in April, 1956, and about 12¢ an hour in the woolen-worsted industry.

The union contends that since then the "cost of living has risen 8% and productivity has increased substantially."

TWUA is also preparing to press demands for raises in union-contract mills in the South, where increases given voluntarily by nonunion employers of 300,000 workers went into effect this week. The raises brought Dixie's minimum textile wage to $1.25 an hour.

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New Court Ruling Says Monitors Can Order Teamsters to Reform

Court-appointed monitors supervising Teamsters affairs were authorized last week to order, not just advise, the union to make reforms they consider necessary. **Attorneys for the truckers plan an appeal; they complain that an order by Federal Judge F. Dickinson Letts "invades" the legal rights of a labor organization.**

Judge Letts supported the position of the monitors in an opinion last December (BW—Dec.20'58,p42). The Teamsters went into a higher court to delay the issuance of a final order. A U.S. Court of Appeals rejection of the Teamsters arguments opened the way for Judge Letts' strengthening of the monitors' powers.

The order just issued puts the "inherent powers" of the court behind the monitors, to enforce demands for full and prompt compliance with "housecleaning" orders.

The Teamsters executive board will meet in Miami Beach next week to consider further steps in a continuing fight against the monitorship.

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Airlines and Unions Talk Over Possible Changes in Railway Act

Representatives of major airlines and their unions got together in Washington last week to consider ways to make the Railway Labor Act more effective in preventing tie-ups of air transportation (BW—Dec.13'58,p90). **The group, meeting at the call of Labor Secy. James P. Mitchell, split on what—if any—changes should be made.**

Industry spokesmen called for a ban on jurisdictional strikes and secondary boycotts, and proposed amendments to speed federal mediation efforts and to require a secret ballot before a strike.

Compulsory arbitration of issues in dispute was suggested as a last resort against walkouts, but failed to receive any substantial support in the industry group.

Union representatives opposed any changes in the law drafted in 1926 to handle labor disputes in the railroad industry and extended to airlines a decade later.

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Acceptance of Arbitration Ends 134-Day Strike at Pittsburgh Plate Glass

A 134-day walkout at nine plants of the Pittsburgh Plate Glass Co., ended this week when striking members of the United Glass & Ceramic Workers voted to accept arbitration.

Terms of the settlement were not disclosed but it is understood that both sides agreed to submit to arbitration the unresolved issues, which centered on company **charges of featherbedding. Incentive procedures, machine speeds, work restrictions, and seniority rules will be examined and ruled on by a three-man panel.**

Wages and other economic issues were not in dispute, having been settled before the strike on the basis of the Libbey-Owens-Ford settlement of last fall. The pattern provided 8¢-an-hour boosts for each year of a two year contract plus increased pensions and other benefits.

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Airline Challenges Order on Negro

Continental Air Lines, Inc., has challenged the jurisdiction of the Colorado Anti-Discrimination Commission. The commission had ordered Continental to enroll a Negro, Marlon D. Green, in its pilot training course. The airline went to court, contending the agency can't control employment policies in interstate commerce.

Data: Federal Reserve Board.

©BUSINESS WEEK

Heading for a Crisis?

The government securities market was enjoying an unaccustomed lull this week when it was thrown into a tizzy by Pres. Eisenhower's statement that the Administration may ask Congress to hike the 4¼% ceiling on Treasury bonds if interest rates keep rising. But after an initial drop in prices—and rise in rates—the market recovered and settled back to think things out.

There is usually a short breathing spell after a Treasury financing like the one that is just over (BW—Feb.14 '59,p135). This is what the market is experiencing. But the refunding itself was a dismal flop. Investors who held 23% of the maturing securities demanded cash rather than accept the exchange. This forced the Treasury to return to the market to raise new money in what was clearly a desperation move —a move, say some observers, that may be the prelude to a real crisis.

• **Calm Before Storm**—If this is the case, the current breathing spell is merely the calm before a storm that will drive down the prices of government securities and shoot interest rates up in whirlwind fashion. Even if a crisis is averted, there is no doubt that the Treasury will have a difficult time when it next comes to market, which will be early in April. Investors are increasingly reluctant to buy government obligations, even at attractive interest rates, because they think that rates cannot help going even higher.

There have been fears of a crisis in the government market before. Last fall, for example, many observers predicted a sharp break in prices—and a rise in rates—because of the Treasury's financing needs. That crisis was averted chiefly because corporations had vastly improved their cash positions during the recession and in the rebound that followed (BW—Oct.18'58,p23). They had spare funds to invest in short-term governments, which enabled the Treasury to get by without resorting to inflationary financing through the nation's banks.

• **Sources of Funds**—But suspicions that the Treasury must lean on the banks are mounting once again. While corporate liquidity is still high, it's expected that businesses will be using their cash to build inventories and pay taxes.

The Treasury can always get the funds it needs, of course. But it may be forced to pay an extremely high rate to attract investors—even bank investors. And as the chart above shows, both short-term and long-term interest rates are already high. They began rising last June, when the bond market suffered one of the sharpest price breaks in history, and they have moved upward, in fits and starts, ever since.

• **Psychology**—Some Federal Reserve officials think that rates may be out of line with present economic conditions. But, with the Fed itself pursuing a restrictive credit policy and issuing warnings about the threat of inflation, it is

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(with "meat-rail" trailers)

You are looking at a most unusual refrigerated trailer. Built by our Brown Trailer Division for a Minnesota meat producer, its trolley rails exactly match those inside widely-separated slaughter and packing plants. Thus, workmen load and unload simply by *pushing* hook-hung carcasses. Saving over lift-and-carry methods: four man-hours per load.

. . . of canned tuna fish

(with powerful fork trucks)

From this typical Clark-load, supposing you ate a can of tuna fish every Friday. Your supply—believe it or not—would last *66 years!* Ability of this high-speed CLARK truck to handle so many cartons at once is a big reason this New York cannery operates so efficiently.

. . . of sugar beets (with oversize tractor shovels)

Each "bite" of this MICHIGAN Tractor Shovel scoops almost 175 bushels of Ohio-grown sugar beets . . . enough in one load to fill a truck. The machine, in just a few seconds, then drives 100 feet, dumps its big load into a refinery conveyor. Its high-speed cycling lets one man do the work formerly requiring a whole crew.

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not surprising that investors are looking for higher rates.

Investors talk in terms of maintaining "Bikini-style" portfolios, which one banker explains as "limiting yourself to the shortest terms possible."

Investor psychology is one of the major elements in the crisis talk. When economic activity is high and the Fed is restricting credit, the Treasury's borrowing problem always worsens. With investor sentiment so sour, its difficulties loom larger than ever.

• **Limited Choice**—Here is what the Treasury faces:

It has no hope of selling any long-term bonds, and the latest refunding demonstrated that even intermediate issues—it offered either a one-year or three-year maturity—have little appeal. This confines it to the short end of the market.

Even in this sector, the nation's commercial banks appear to be the only group that can be counted on as purchasers. Selling short-term obligations to banks not only increases the threat of inflation but also is an unstabilizing influence on the market—it means that the Treasury must continually be involved in "rolling over" its debts.

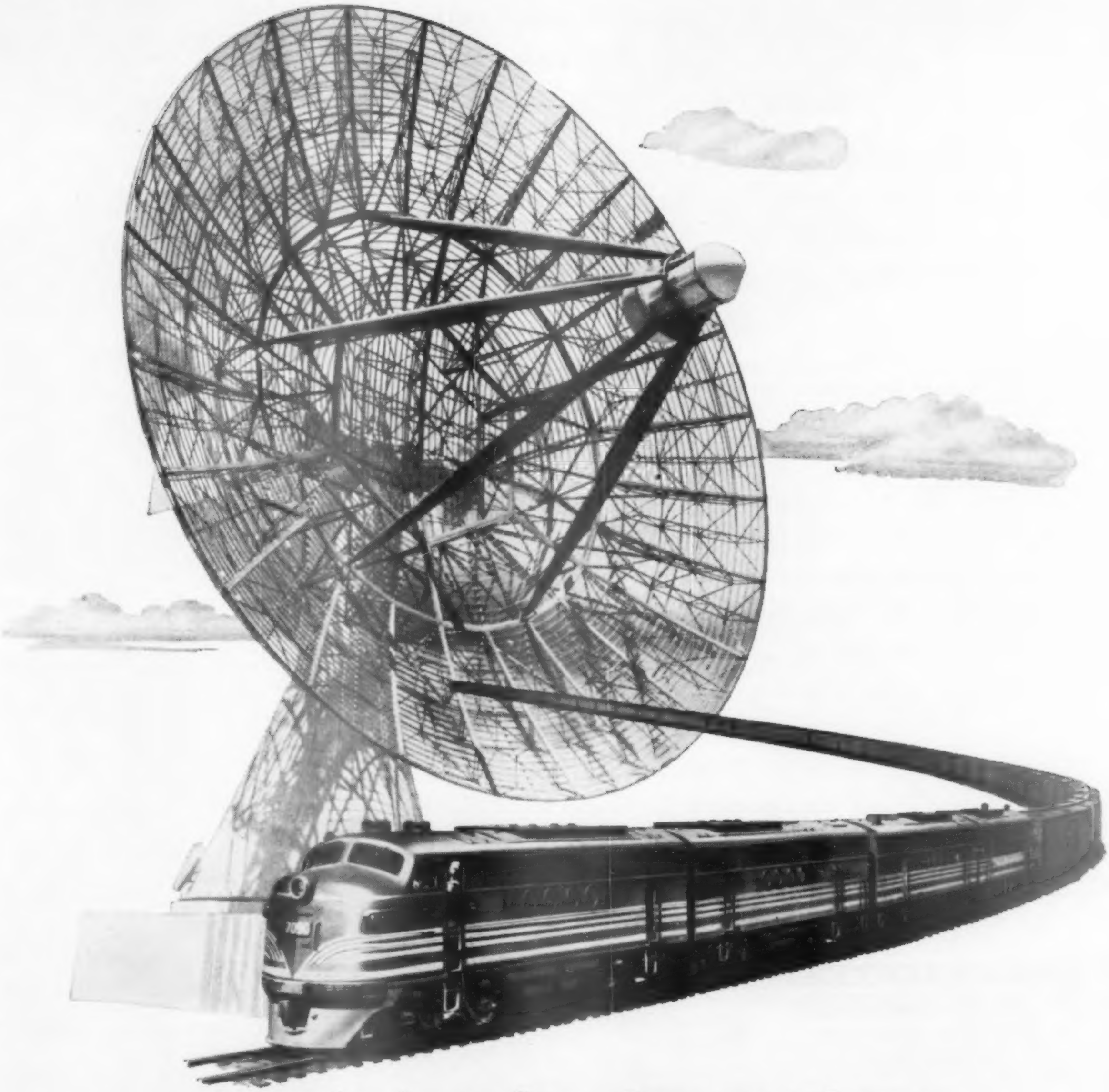
• **Fed's Influence**—A showdown could be avoided, or at least postponed, if the Fed eased up on its restrictiveness. But the money managers, led by FRB Chmn. William McC. Martin, have continued to emphasize the threat of inflation, and they are unlikely to reverse policy unless there is a sharp change in the economic outlook. Even then, the Fed would want to be certain that any change was more than a temporary one.

This week, Fed officials privately advanced the view that a short period of softness may be in the making. They do not plan a shift in their policy, because they still see plenty of "inflationary tinder." But they think this softening could lead to "a cooling-off" in the investor sentiment that favors stocks as a hedge against inflation. Even a marginal switch from stocks to the Treasury market would mean a big improvement.

The money managers are well aware that if there is no change, a new storm may be brewing in the government market. They say that as long as investors are inflation-minded, the Treasury is in for trouble.

• **Budget Battle**—Martin himself thinks the battle of the budget will settle the fate of the Treasury market. If investors are convinced that spending will be controlled, he says, they will no longer believe in the inevitability of inflation.

The Treasury itself thinks along the same lines. This week it announced that P. Mayo, a veteran Treasury official, was taking on the post of assistant to the secretary in the field of debts man-



America's radar sky-watchers report for duty on rails of steel

Another example of how railroad progress goes hand in hand with U. S. progress

Stretching across America, a vast network of radar stations is on guard night and day—helping to keep the skies above your home free of intruders.

And America's progressive railroads are essential to these radar installations. They help to haul the raw materials for their construction. They help move the finished components to their duty stations. No other form of transportation can handle such massive hauling jobs with the economy and efficiency of the railroads.

The railroads are vital to our national defense and to the growth of our economy. The country – you – couldn't do without them.

RAILROAD PROGRESS: Welded rail, laid in continuous lengths of steel, gives passengers and freight smoother rides.

AMERICA MOVES AHEAD WITH THE RAILROADS

Association of American Railroads, Washington, D. C.

ESSENTIAL TO THE NATION'S ECONOMY

agement. As such, he will be directly involved in the Treasury's financings. He is getting help from the Treasury's determination to resist all attempts to unbalance its budget. There is a growing feeling in the Treasury that it will win this fight. At the same time, there is a fear that investors will remain skeptical during the crucial period just ahead.

• **Time of Danger**—If there is no change in investor sentiment, and business activity rises, the Fed will probably increase the discount rate before the Treasury comes to market. This action alone would make for a higher rate pattern.

In a speech this week, a prominent dealer in government securities, Aubrey G. Lanston, observed that we are "entering a new, different, and dangerous period" of Treasury financing. He suggested that the normal yardsticks governing the market—mainly economic conditions and the supply and demand of funds—may be replaced by a simple appraisal of the Treasury's cash needs. And he observed that "any untoward enlargement in the Treasury's cash needs may result in sharp, overnight increases in short-term interest rates."

• **Rate Switch**—Some observers go further. They think interest rates on short-term securities will rise above the rates on long-term bonds. As they see it, the 4¼% legal ceiling imposed on new long-term Treasury bonds is a "mental barrier" to any rise in that sluggish sector. There is no such mental block associated with short-term rates. So if the Treasury has to supply more than the market is willing to take at prevailing rates, there may be an upset of the rate structure.

According to some market men, this could come as early as April. Others feel that it will take another refunding failure, like the one this month, to bring it about. One pessimist put it this way: "It all depends on whether investors think inflation is here to stay. If they do, then we can get a break in short-term prices the way we got in longs last year."

• **What Could Happen**—If the short-term market is ever saturated to the point where its rates rise above long-term rates, that may be the moment of crisis. Then the Federal Reserve would probably step in—or else face attacks from Congress.

If there should be a breakthrough in short-term rates, its effects are sure to spill over to the long-term market. Investors would sell bonds to take advantage of the higher interest rates on the short-terms.

This would produce a drop in long-term prices—a rise in rates. After that happened, a wholesale shift could take place from the stock market to the bond market. And this would relieve the strain, at least for a while. END

In the Markets

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Municipals Market Flexes Muscles
As Insurance Companies Seek Tax Haven

The market for tax-exempt municipal bonds showed exceptional strength this week, despite a fast increasing backlog of new issues. The reception given to a $120-million offer of Chicago-O'Hare International Airport bonds was typical. The bonds were "out the window" on the day of the public offering, and traded as high as 3 points over the issue price in active secondary dealings.

Bankers and municipal dealers say that the market's strength comes principally from two sources:

• Insurance companies, faced with sharply increased taxes this year (BW–Feb.14'59,p118), have been flocking to the tax-exempt market in an attempt to soften the impact of higher taxation.

• Yields in the municipal market are so high–the Dow-Jones yield index for 20 representative tax-exempts now stands at 3.38%–that investors, having taken profits in the stock market, are reinvesting in municipals.

Nevertheless, the new-issue backlog is causing some concern. **The Daily Bond Buyer's "visible supply"–all bonds scheduled for sale in the next 30 days–now stands at $630-million, up $100-million in the last week and $400-million since Jan. 1.** Dealers say that if this glut continues, bond prices are bound to suffer, though a sharp decline is not anticipated.

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Uneasy Investors Seek "Pro" Help,
Turn to Shares of Mutual Funds

A pickup in the buying of mutual fund shares is one byproduct of the stock market's present unease, as investors seek to trim risk by professional management and diversified portfolios. Reports from mutual fund companies show that January is likely to hit an all-time monthly high. **The tally could top $200-million, some $30-million above the previous peak last June.**

During the month, Chemical Fund chalked up $3.1-million sales, 95% greater than in December; Wellington Fund set a 30-year record, reaching $14-million; Group Securities had sales of $4.4-million, 58% above January a year ago: and First Investors Corp. reported sales of $14.7-million, an increase of 60% over last January.

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Stock Index Dawdles on Low Volume
As Investors Take Another Look Ahead

Stock prices this week marked time as investor activity diminished. The Dow-Jones industrial average hovered about 587, up from its 1959 low of 574 but posing no threat to its January high of nearly 600. While over-all volume declined below the 3-million-share mark, there was increased trading in blue chips and in some specialties.

It is apparent that **investors are growing increasingly reluctant to put cash into stocks at the current level of prices**–at least until there's some assurance that business will move sharply higher. Meanwhile stock prices will probably seesaw quite a bit.

Investors apparently are looking beyond first- and second-quarter earnings reports, and some are worried about what they see. Among other things, they think auto sales aren't proceeding as merrily as might be, and they are concerned about the failure of some U.S. companies to build up their export business.

One sign of the present caution was revealed in the annual report of American Telephone & Telegraph, which showed that its pension fund managers had put only $34-million into equities. They could have invested upward of $284-million under a new policy that allows them to put up to 10% of the company's pension fund assets into equities.

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The Markets Briefs

Cigarette shares fell sharply on Monday, then clawed their way back, as a fresh cancer scare hit the industry; an article in Reader's Digest claimed a direct link between smoking and cancer. Brokers expect tobacco stocks to shake off this latest attack, point out that cigarette consumption in 1958 exceeded 1957's record by 6.6%. . . . **Another quivering stock group was the sugars,** on word that Fidel Castro "might nationalize the Cuban sugar industry."

Whether income is needed or not, **personal trust accounts should be 75% invested in equities,** according to a panel of investment advisers at the 40th midwinter trust conference of the American Bankers Assn. They felt such a heavy equity position was justified both as a hedge against inflation and as an investment in the country's growth.

Eastman Kodak Co. this week proposed a sweeping recapitalization plan that will split the common 2-for-1, eliminate its 6% non-callable preferred, and raise the dividends on both the common and a new callable 7.2% preferred. Brokers say the company will remove the preferred from the capital structure entirely when the new preferred becomes callable in 1964.

Bill Veeck and a syndicate of investment men this week offered to exercise an option to buy 54% of the stock of the Chicago White Sox from Mrs. Dorothy Comiskey Rigney for $2.7-million. But Mrs. Rigney's brother, Charles Comiskey, biggest minority shareholder in the White Sox, has started a court action to block the purchase.

SEC hearings opened this week in San Francisco on charges that Reynolds & Co., a nationwide brokerage and investment banking firm, had engaged in fraud and deceit in uranium stock deals between 1953 and 1955. But the investigation has been bogged down for more than two years in legal wrangling, and this delay, say observers, is an indication that Reynolds may escape harsh punishment.


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PERSONAL BUSINESS

A BUSINESS WEEK SERVICE

Are you working under heavy emotional pressure? If you are, the evidence is getting stronger that you are inviting a heart attack.

Heart attacks (coronary occlusions) and related ailments account for nearly half of all deaths attributable to heart failure. **This 50% represents more than the total deaths from cancer.**

There's still some split of opinion among doctors as to the role played by on-the-job tension. But more and more doctors are being won over to the view that **it's a paramount factor, especially as it pertains to businessmen in their 40s and 50s who (1) drive themselves hard at the office and (2) fail to break the emotional tension on evenings and weekends.**

Several major types of heart "disease" aren't diseases at all, in the usual sense. **Among these is the "coronary," which is an event rather than a disease.** What happens is this: A clot of blood plugs the coronary artery, denying blood to the heart.

This plugging, or occlusion, of the artery is most likely in a condition of atherosclerosis, a thickening of the artery walls and a consequent narrowing of the passage for blood. The artery walls are thickened by fatty deposits from the cholesterol component of the blood.

This deadly buildup of fat inside the artery can be either caused or at least strongly influenced by purely emotional factors, many doctors now say. They don't deny that such things as improper diet, obesity, and lack of exercise play a part. But a leading specialist, Dr. Stewart Wolf of Oklahoma City, draws this picture of **the coronary-prone personality:**

"A man who is highly competitive in his attitudes, if not in his behavior; concerned with self-sufficiency and with doing things on his own, usually the hard way. Looking for new worlds to conquer, he takes less than usual satisfaction from achievement and, especially, has no time for . . . satisfaction between chores."

The basis for this kind of thinking goes far beyond educated guesswork. For example, a study by two San Francisco specialists, Dr. Meyer Friedman and Dr. R. H. Rosenman, compared two groups of men—**83 aggressive executives and another 83 men who were deemed opposite in drive and personality.** Physical factors, such as diet, were the same in both groups.

Result: The aggressive group showed **higher levels of blood cholesterol, faster blood-clotting time, and six to eight times as much heart disease.**

A study at a U. S. Public Health Service hospital in New York turned up similar evidence. Here, 100 ailing and 100 healthy adults, all age 40 or less, were closely screened and compared.

The finding: **Job stress "appeared to be far more significant in the coronary picture" than such factors as family history of heart disease, high fat diet, obesity, amount of tobacco consumed, or amount of daily exercise.**

What about the effect of emotional strain on people who have already suffered a coronary?

Along this line, a Columbia University researcher says there's no rule of thumb on the question of whether a heart attack victim should return to work. It's an individual matter. **But the emotional stress of the patient's job is one "indispensable" element to consider.**

On the negative side, some doctors say simply that the evidence backing the emotional viewpoint isn't at all conclusive. **Nearly all, though, admit that there's no reason to gamble.**

Thus, the middle-age executive is advised to do more than just maintain proper weight and get a healthy amount of daily exercise. Today—more than ever before—he's being prompted to master the art of emotional relaxation—through sports, hobbies, carefree travel, reading, and the arts.

For an up-to-date review (which, incidentally, presents the conservative approach to emotion as a cause), see **What We Do Know About Heart Attacks,** by Dr. John Gofman (Putnam, $3.50).

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If you're self-employed, passage of the Simpson-Keogh bill (BW—Feb. 14'59,p142) could save you many tax dollars.

You could take yearly tax deductions on amounts paid into a personal retirement fund, up to 10% of your net earnings, with a $2,500 maximum. No further deduction would be allowed when you had (1) deposited $50,000 in your retirement fund, or (2) reached age 70.

There's a provision in the bill for people over 50, intended to give them a chance to make the maximum total deposit before they reach 70. If you were 50 or older before Jan. 1, 1959, the deduction limit would go up one-tenth for each full year of age in excess of 50.

For example: If you were 55 before Jan. 1, and now want to start such a plan, you would be entitled to make private pension-fund deductions of up to 15% of your 1958 net earnings, with a maximum of $3,750.

A big added advantage: Under this bill, you'd pay income tax in the year when you retire on both your regular income for the year and your total pension payoff, but you would pay much less than the ordinary rate.

Here's how it would work: You could divide your pension lump sum by five, figure the tax at the rate of this rather than the far higher rate on the pension sum as a whole, then multiply the tax by five, and finally add it to the tax on your regular income.

Thus, you could, in effect, get the same advantage as if your pension return could be spread over five years.

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Room service: A new "per room" rate for moving household goods overseas has been established. The service, now operating to 48 cities in 38 countries, originates from New York. If you're planning to move to Europe, for example, the rate for a living-room of average size, packed and delivered to Frankfurt, Germany, would be $409—with an extra charge for additional pieces. Write to Household Goods Overseas, 243 West 68th St., New York 23.

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Flu flare-up: Don't count on last year's Asian flu shot to provide immunity to a predicted influenza outbreak in the U. S. this year. While immunity may last well beyond a season, nearly all flu shots given last winter were directed solely against Asian flu.

Now, with flu spreading rapidly in Great Britain and travelers spanning the ocean in a few hours, you may want a shot immediately. Your physician probably will use a polyvalent vaccine as a preventive against all the common types of flu, including Asian.

In Marketing

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MORE NEWS ABOUT MARKETING ON:

- P. 122—Saturday Evening Post gains in race against Life for No. 1 circulation spot
- P. 129—Auto industry expands direct mail promotion as competition toughens

Consumers Indicate They Would Spend Windfall Prudently—If at All

How would you use a $2,000 windfall?

This question was put to 400 families in the Philadelphia metropolitan area at the end of January. The February Business Review of the Federal Reserve Bank of Philadelphia summarizes the answers. The Public Information Service of the bank made the survey.

The pollsters caution that this is a small random sample, and the novelty—and unreality—of the question makes interpretation difficult. Nevertheless, they came up with some tentative conclusions—not all of them calculated to encourage a durables-oriented consumer economy.

They turned up no signs of an all-out buying binge. A good 24% of the families would save the entire amount. Only 16% would spend it all. Partly, the pollsters conjectured, the recession's pall still lingers. But they found some backing for the theorists who hold that there is a "new" consumer, with other concerns than such tangibles as cars and appliances.

Thus, 168 households would save all or part of the money, through savings accounts, stocks or bonds, real estate, or some sort of cash reserve. Another 150 families would use all or part to pay bills—on mortgage debt, cars, appliances, and the like.

Among the 243 families that would spend all or part, home repairs got top mention, with 14%; about 10% would buy furniture; nearly 6.5% would make a down payment on a house. About 6% would put the money into education. Nearly 5% would take a vacation.

By contrast, just 3.8% would use the money to buy a car, and about half that number would buy an appliance.

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Carpet Industry Is Raising Prices, Says Market Can Stand Increases

The carpet industry is looking forward hopefully to a general price increase this spring. The signal came with last week's announcement by James Lees & Sons Co. that it plans to raise prices about 3.5% in March. Other big mills expect to go along.

Higher labor and raw materials costs were the explanation. Some Southern mills, particularly, have had wage increases or expect them. Wool prices, too, are higher.

A Bigelow spokesman points out that prices have not risen generally for upward of two years. Many mills boosted prices on a few lines in January, but the boosts were so limited that they barely showed.

Manufacturers say emphatically the market can stand the increases. Most companies who publish statements experienced both sales and profit declines in the first nine months of 1958; big Mohasco Industries was an exception. But a Masland official reports that in the last quarter average monthly shipments were 25% ahead of those of the first three quarters. And while the January market brought no sensational buying, its "tone" and morale showed marked improvement.

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Disney Offers Lease Plan on TV Films That Companies Could Give to Schools

Walt Disney Productions has a program that will (1) educate the public in scientific matters, (2) earn public relations credit for corporations, and (3) make a few dollars for Disney.

The company is making its expensive TV productions—screened on the Disneyland Television Show—available to corporations on a long-term lease basis. Companies may hand them over to schools, after adding their credit line, or exhibit them to employees, clubs, and the like.

Schools may lease the films for the life of the print, not to exceed 10 years, at a cost of $300 to $350. Or industry may lease them at about $50 more per film for six years.

Five are now available: Our Friend the Atom, Man in Space, Man in Flight, Mars and Beyond, and Man and the Moon.

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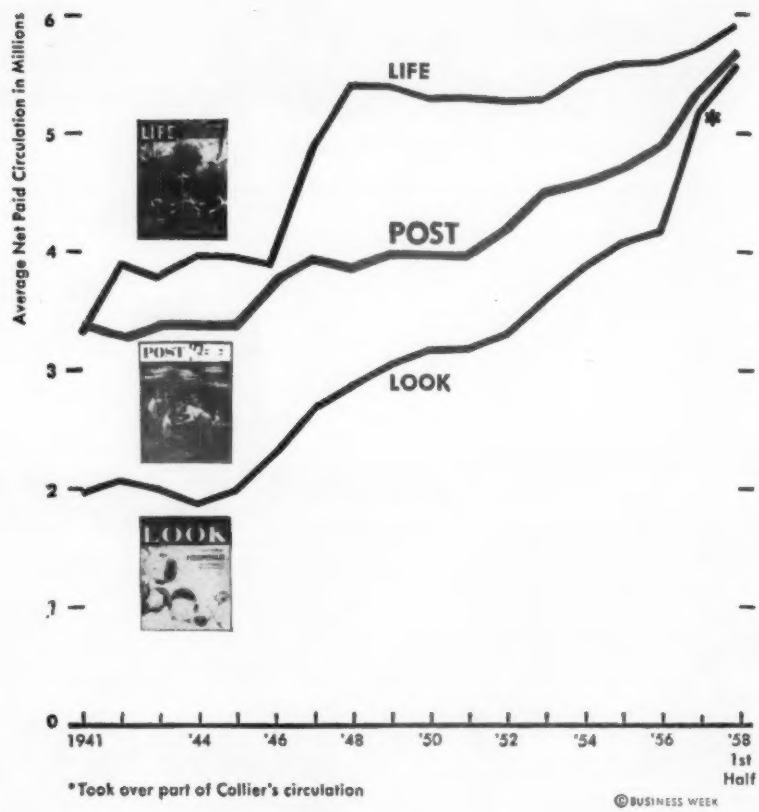
Sears, Roebuck Sees Growing Demand For Quality Mail Order Merchandise

Despite the vast growth of its retail business, Sears, Roebuck is by no means forgetting its mail order job.

So said Edward Gudeman, vice-president in charge of merchandising, last week at the Tobe Lecture Series in Retail Distribution at the Harvard Graduate School of Business Administration.

Sears had record sales of over $3.9-billion last year. It also had its largest mail order year, Gudeman said, in both tonnage and dollar volume. He predicted continued growth, primarily through catalog sales offices in communities too small to support a retail store. These offices are small; they carry only display stock.

The company reasons that the housewife, busy with her growing children, will continue to welcome the convenience of mail order buying. She no longer buys necessities alone by mail. She is younger, better educated, more interested in home and garden than the typical housewife used to be—and she buys the same merchandise as store customers buy. This has meant a steady upgrading to higher-priced, better-styled mail order goods.



*Took over part of Collier's circulation

Weeklies Battle for Readers

The Saturday Evening Post may soon snatch back its No. 1 circulation spot from Life.

Curtis Publishing Co. this week felt sure that, for the first time since 1942, its Saturday Evening Post is regaining the No. 1 circulation position among mass weekly magazines (chart).

SEP's Feb. 14 issue, according to Curtis' estimate, sold "more than 6-million" copies, enough to send it ahead of the latest Life estimate of 6,052,876 average weekly net paid circulation for the nine months ending Sept. 30, 1958. Life itself isn't conceding anything to the Post yet. For one thing, the next official Audit Bureau of Circulation figures for the last half of 1958 will still have Life out front.

But SEP is confident it can maintain the Feb. 14 pace so that its circulation leadership will become official sometime in 1959. SEP bought the circulation of Household, a Capper magazine that folded recently. Just how much that will add to SEP's circulation is still speculative, but may run as high as 300,000 copies.

• **Hot War**—There's no question about the hot competition among mass circulation magazines, both for readers and for advertisers. In the postwar period, fuel has been added by (1) the advent of television as a mass medium, and (2) the decision a couple of years ago by Reader's Digest—which now has a circulation of over 12-million—to sell advertising in its domestic edition.

Pressure for each magazine to deliver more readers also comes from the service publications—led by Ladies' Home Journal, McCall's, and Good Housekeeping—which also count their circulation in the millions.

After it was launched in 1937, Life quickly overtook SEP in the magazines' battle for readers. Look, which also appeared the same time and which now ranks third with its estimated record circulation of 5,704,000, also helped to end SEP's lead.

But since 1948, when Life had its greatest edge of 1.5-million over the Post, SEP has steadily chopped away at Life's lead. Latest estimates for the first three quarters of 1958 show the biggest gain made by Look, up 34.8%, followed by SEP with a 15.4% gain. Life had the smallest gain (5.5%) among the big magazines. Look got a big boost when it took over part of Collier's circulation after Collier's folded in 1956.

• **Life's Line**—Life obviously is con-

When you want to know how your ads sell

. . . ASK THE MEN WHO READ THEM!

By going directly to the men who pay to read our publications, we bring you a positive measure of the effectiveness of your advertising in McGraw-Hill publications. We've asked our readers how they react to your ads . . .

Here are the results

These are direct quotes from continuing readership studies sponsored by McGraw-Hill, including our own "Reader Feedback," and Starch and Mills Shepard. They bring into sharp focus this basic truth: advertising is a primary tool in selling to business and industry.

Your McGraw-Hill representative will gladly furnish additional evidence on request.

"We discussed the ad for tires on mine shuttle cars, then put them into experimental use. So far, we're continuing to buy that type for all replacements."
Production Manager, Coal Company

"The ad was just the prod my partner and I needed to get us to make the final move. I've written for information and prices . . . when we see their men we will decide just what and when we'll purchase."
Vice President and Partner,
Textile Weaving Mill

"The ad stimulated our interest. Then their sales people began to call, and we started to use the product."
Development Engineer,
Helicopter Manufacturer

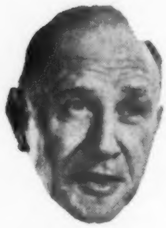
"I was so interested in this ad I went to see traffic control board in operation at shops here."
General Manager, Manufacturer

"This ad clicked with me. I am designing an oil pump, and need a high-temperature seal. I decided to use this as a sealer."
Project Engineer,
Consulting Engineering Firm

"We first heard about them through an ad. We are now using them on a foot press, and it works fine. I'm going to see if I can put them on other machines."
Maintenance Superintendent,
Metal Parts Manufacturer

Your Advertising in McGraw-Hill Publications
Sells Your Products!

"This is a new product for them, but they have a terrific reputation. I discussed the ad with the head of our company, and shall send for some samples."
Superintendent,
Frozen Meats Manufacturer



"Our Purchasing Agent pointed this ad out to me. Although it isn't definitely decided, I'm quite sure we will buy their mixers."
Treasurer, Chemical Company

"The ad reminded me that I had some of their catalogs. I got them out, and ordered equipment from them."
Plant Manager,
Petroleum Distributing Company

"We called their people in after seeing the ad, and now they are making a layout for us."
Factory Manager,
Metal Products Manufacturer

"I recently bought some as a result of this ad. The other brand we had was always causing trouble, and this looked like a good thing."
Purchasing Agent,
Rope and Twine Manufacturer

"I have discussed this with a contractor who is buying some property for me, told him about the equipment I saw advertised and that it is my preference. I am sure that he will go a lot on my recommendation."
Mining Engineer, Mining Company

McGraw-Hill
P U B L I C A T I O N S

McGRAW-HILL PUBLISHING COMPANY, INC., 330 WEST 42nd STREET, NEW YORK 36, N. Y.

scious of the danger of losing its No. 1 spot—a powerful promotional weapon in the fight for advertisers' dollars. Right now, it is in the midst of another major circulation drive. After extensive tests last year in selected markets, Life is staging a cutrate newsstand sale, this time in the New York Metropolitan area, that brings the price down from the regular 25¢ per copy to 19¢. In addition, it is selling subscriptions at half-price for a limited period. In both cases, Life is certain it will increase the number of steady buyers. Results won't be known for some time, but they may fault the Post's hopes of overtaking the leader. Undoubtedly, Life's cutrate drive is aimed at the Post, since it is the only major magazine that hasn't raised its price (15¢ on the newsstand and $6 a year) in recent years. The Post easily leads its two top rivals in newsstand sales.

- **Common Enemy**—Paradoxically, at a time when the magazines are selling hard against each other, they are banding together through the Magazine Publishers Assn. and with individual promotions to battle the inroads of television. In the postwar period, advertisers of mass consumer products have seen their total advertising costs climb sharply. The big magazines raise their rates to match increased circulation, and TV boosts its rates to keep up with total viewing audiences.

This puts a lot of pressure on advertisers to pick and choose among various media—general magazines, TV and radio, Sunday supplements, service magazines. The result is increased emphasis on measuring advertising effects, including scientific attempts such as the experiments by du Pont to establish a profit yardstick for advertising (BW—Nov.22'58,p49).

- **TV's Pitch**—The race among various sorts of media was sparked by last year's recession. Magazines generally lost advertising revenue compared with the previous year, while estimates of TV sales were up.

Magazines and newspapers are taking pot shots, at the johnny-come-lately that has upset the growth of print media. Squeals of "unfair play" are coming from TV, beset by government investigations—including the promise of a study of audience rating systems. Up to now, TV—despite the high cost of time and talent—has been able to sell itself as an economical method of advertising because of the skyrocketing growth of its audience. Now, with the TV set market practically saturated, any added cost to advertisers must increase the cost of reaching any one viewer in prime nighttime hours. TV networks are making a major pitch to gain daytime TV audiences and revenue, which if successful would be another blow to magazines. END

Using the Mails to Sell Autos

Detroit is turning to direct mail to tempt customers into showrooms and to rebuild dealers' lists of prospects.

Practically everybody has heard some tale about an automobile dealer who wouldn't bother to put down his newspaper and get out of his chair when a prospective car buyer walked into his showroom. For all their exaggeration, such stories reflect the widespread feeling that during the postwar years of high demand and bulging order books, dealers and their salesmen forgot about selling. When customers stopped flocking to showrooms, dealers found their lists of prospects had dwindled and were badly out of date.

Now car makers are working to rebuild these lists and lure buyers back into the showrooms. To do this, Detroit this year is making greater use of direct mail techniques than ever before.

• **Biggest Yet**—The most extensive—and expensive—direct mail campaign so far this year swirls around Ford Motor Co.'s Buyers Digest of New Car Facts for '59, a 96-page booklet which the girls at right are stuffing into envelopes at the Westbury (L. I.) plant of O. E. McIntyre, Inc., direct mail marketing specialists. Ford Div. spent an estimated $4-million to offer the Buyers Digest to some 10-million homes around the country and then to send back 1.3-million booklets to the people who asked for it. For its money, Ford has already achieved some gratifying results:

- An indirect but effective selling medium has been placed in 1.5-million homes. (An ad in Reader's Digest brought up the total from 1.3-million.) The Buyers Digest contains articles of general interest. But, of course, Ford cars crop up on every page and in every example, and the booklet is, in effect, a catalogue clearly listing factory prices and specifications of all Ford models and accessories.
- Names, addresses, and pertinent marketing data about a tremendous number of prospects have been neatly recorded on IBM cards. The company is sending each of its 7,000 dealers the names of respondents in his territory, and the list will form the nucleus for additional promotional mailings.
- A program has been developed to determine how many prospects actually bought cars.
- From all this activity, a mass of important marketing information has been acquired about people who buy Ford autos, as well as other makes.

BUYERS DIGEST prepared for Ford went to 1.3-million persons who responded to direct mail offer. Girls stuff the booklet into envelopes at O. E. McIntyre, Inc., plant.

Ford is so pleased with its Buyers Digest that this week the company decided to spend another $780,000 for a 36-page tear-out insert with excerpts from the booklet to run in the May issue of the Reader's Digest.

Other auto makers are or soon will be flooding the mails with sales letters, brochures, and catalogues.

I. Why Direct Mail?

Conventionally, car makers have turned to direct mail to be sure of reaching people who are car owners, of both their own and competitive makes. The latter aim is especially vital if you want to outstrip the competition. Ford, for example, has 2.1-million fewer registered owners than Chevrolet. To close this gap, Ford obviously has to win over some Chevy owners.

For this kind of direct mail effort, car makers work with R. L. Polk, a Detroit company that maintains lists of car registrations. This year, Polk has encouraged this activity by lowering its prices and putting its registrations on index cards.

Car makers also have responded to claims that sales results from direct mail can be measured directly. Explains McIntyre's executive vice-president, Randall P. McIntyre: "Auto companies have used direct mail as an advertising force. We believe direct mail should do more—it should produce some specific measurable result that can be re-

lated to the dollars spent." In other words, since direct mail costs more per person reached than ordinary advertising, it should produce more results.

• **Depleted Lists**—Finally, car companies need a more direct route to potential buyers. "Frankly," one car marketing man admits, "dealers have fallen into sloppy ways during the last three or four years, and their prospect lists are shot." Direct mail efforts using car registration lists are the usual starting point for most prospect lists. Now other direct mail techniques, especially those that call for a response, are turning up possible customers.

II. Ford's Program

Ford's Buyers Digest campaign departs from previous direct mail auto promotions. First of all, the Digest itself, with its soft-sell approach, is novel for the auto industry.

More important, instead of utilizing lists of known car owners, Ford is trying to pinpoint buyers within the broad market that should contain the most likely customers for its cars. McIntyre Vice-Pres. Wilson B. Prophet sums up the basic aim of his company's work for Ford this way: "We are trying to get the prospective car buyer to identify himself by responding to a specific offer." This is more difficult than it sounds. The Buyers Digest represents Ford's best solution so far.

• **Ford Meets McIntyre**—The Buyers Digest actually is part of a continuing program that dates back to early 1956, when Ford Div.'s car marketing department, headed by Lee A. Iacocca, began working with the McIntyre organization. McIntyre takes in about \$6-million annually for its services to such blue-chip clients as Reader's Digest, Life, Bankers Life & Casualty Co., and Salada-Shiriff-Horsey. This figure does not include such direct mail costs as printing and postage, for which McIntyre clients spend roughly \$12-million. The outfit ranks third in the direct mail industry, behind Reuben Donnelley and Polk.

Since 1956, McIntyre has mailed out some 40-million letters for Ford. These were substantial promotions with an underlying experimental purpose: to find a way of assuring that the people who respond to an offer are legitimate prospects for a new car. It is largely a question of the lure. "The more bait, the more response," says Randall McIntyre. "Our problem is to offer the kind of bait that will appeal to the sort of fish we want to catch."

For names, McIntyre tapped its enormous reservoir of 36-million names and addresses, representing every residential listing in every U.S. telephone book or 73% of all U.S. families. McIntyre keeps this tremendous listing on IBM

Telephone manufacturer calls for coal

Automatic Electric Co. burns coal in new plant because of cost and availability

Modern facilities, modern products, modern fuel—you'll find all three at the new Northlake, Ill., plant of Automatic Electric Co., manufacturing subsidiary of General Telephone. The power house of this communications equipment plant (designed and built by the Austin Company of Cleveland) is as modern and efficient as the manufacturing process itself. The plant required large quantities of economically and reliably produced steam for process work and heating. The fuel selected was *coal,* because of coal's economy and abundant supply. As a result, today Automatic Electric enjoys dependable, low-cost steam.

Consult an engineering firm

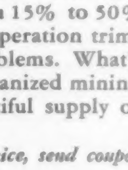
If you are remodeling or building new heating or power facilities, it will pay you to consult a qualified engineering firm. Such concerns—familiar with the latest in fuel costs and equipment—can effect great savings for you in the efficiency and economy of coal.

Coal is lowest-cost fuel

Today, *when the annual cost of fuel often equals the original cost of the boilers,* you should know that bituminous coal is the lowest-cost fuel in most industrial areas. And modern coal-burning equipment gives you 15% to 50% *more* steam per dollar, while automatic operation trims labor costs and eliminates smoke problems. What's more, tremendous coal reserves and mechanized mining procedures assure you a constantly plentiful supply of coal at stable prices.

For free literature or technical advisory service, send coupon below.

SEND COUPON FOR NEW "Guide Specifications for Underfeed Stoker Fired Low-Pressure Heating Plants." Heavy demand for the first edition of this booklet, adaptable for design loads 3,000 to 26,000 EDR steam, has justified an expanded edition covering application of underfeed stokers to fire-tube, watertube and sectional cast iron boilers. Complete specifications criteria cover all aspects of typical heating plant.



Gentlemen: Please send me: BW-02

☐ Guide Specifications Booklet ☐ Case histories on larger plants

☐ I am interested in your advisory service

Name__________

Title__________

Company__________

Address__________

City__________ Zone_____ State_____

BITUMINOUS COAL INSTITUTE

Dept. BW-02, Southern Building, Washington 5, D. C.

See our listing in Sweet's

". . . many people feel dealers don't offer sufficient information about new cars . . ."

STORY starts on p. 129

cards that can be sorted in a variety of ways, by area, income level, type of family dwelling.

• **Experiments**—In testing lures, McIntyre moved from a high-level appeal for cooperation—what Wilson Prophet calls the "leveling with the public" approach—to offering toy model Thunderbirds. The straight-forward letter drew too little response; the car model pulled in many requests from teenagers and others not considered good prospects. Early last year, McIntyre came up with the idea of the Buyers Digest.

Investigation convinced both Ford and McIntyre that many people feel dealers don't offer sufficient information about new cars, especially about prices. This makes them hesitant even to go into a showroom. Further, the law passed last year requiring makers to post prices for all models and accessories (BW—Jun.28'58,p36) gave the booklet a timely appeal. "The thing that gave us the real impetus on the booklet was the price labeling law," declares Iacocca. "What Congress did to take the mumbo-jumbo out of price, we do to take the mumbo-jumbo out of product." McIntyre surveyed to find out what subjects consumers wanted to know about. Gas economy headed the list.

McIntyre started writing the Digest under Ford supervision last July. It took three months to complete the job. The program was launched in October.

• **Into the Mails**—First, a 10-million letter tidal wave flowed out of the McIntyre plant. The company had wanted to send 20-million offers, but Ford, wanting to test the program first, halved the number. McIntyre culled names from groups that Ford knows buy most of its cars. And they tried as much as possible to proportion mailings in each area to the number of dealer salesmen in that area.

From the start, everything was aimed at limiting response to actual prospects. The offers asked consumers to send in for the Digest "if you feel your family may be in the market for a car sometime in the next year." Respondents had to include a dime with their replies. Asking for a dime further limited the response and, incidentally, helped pay expenses. On the offer, consumers were asked to indicate number and the make of cars they owned.

• **Deluge**—After a week, replies began to flood the McIntyre plant. Each reply was recorded on an IBM card to be

They hitched an oil company to a star

(A true story)

COMPANIES, like people, sometimes become inspired. Call it insight into the future, business acumen, "drive"—certain firms suddenly find themselves hurtling to the top.

This was the case with the X. Oil Company. In 1944, when its directors called at The First National Bank of Chicago for a loan, it was a successful, though by oilmen's standards, small organization with a net worth of $1.4 million.

But the officers had a plan—a philosophy. They believed that activity in supplying energy through oil and gas reserves wasn't enough, that the future of the company and the nation lay in creating energy in *several* fields, some of them not as yet completely developed.

The officers in Division I here, which lends to oil and gas companies, listened, considered and concurred. But the company needed a solid financial base. So began a series of loans to finance reserves in the ground, offshore drilling, production, refineries, pipe lines and new equipment.

In 1952, the firm was ready for a significant move, one never before made by an oil company. It extended its activity to processing uranium ore for nuclear energy. The officers' inspiration had paid off. They had created a sound financial foundation for their company *and* they are contributing substantially to the production of tomorrow's fuels and energy. Today X. Oil Company has a net worth of $75,000,000 and it is still growing dynamically.

Men of our Division I were only a part of the team which contributed to X. Oil's dramatic success. But like officers in each of the 10 Divisions in the Commercial Banking Department, they had the imagination and understanding to recognize the merit of their customer's plans—and their ambitions.

This is typical of all Divisions here. Each serves one group of industries exclusively. Officers constantly study and interpret industry trends—are alert to growth potential. And whether you're an oilman or a meatpacker, they speak your business language, waste no time in getting down to cases.

If this is the banking service you're looking for—write, call, or drop into the bank soon. These men are ready to use their skills in serving *you!*

The First National Bank of Chicago

Building with Chicago since 1863

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

used for future mailings. Ford and McIntyre expected about a 6% response; they were overwhelmed when they got almost twice that much. So many requests came in, in fact, that McIntyre had to mail out postcards asking people to be patient while their requests were processed.

Dealers are now receiving prospect lists. Dealer cooperation is essential, and Ford is doing everything it can to encourage dealers to follow through. It mailed fancy booklets to the dealers describing the program in detail. In addition to names and addresses, it is sending dealers postcards addressed to prospects. The dealer just signs and mails them. So far, dealers are reportedly enthusiastic. The one criticism, which McIntyre admits is legitimate, is that the program started too late in the year. The reason for the tardiness was to include in the Digest a new model that wasn't ready in time.

• **Monogrammed Autos**—A series of follow-up mailings is going on. The Digest itself generates some of these. The Digest contains a card that customers may fill out, giving the model and accessories they would like to own, and return to get a three-initial monogram for their cars or they may take it to a dealer, who sends it in. To people who don't bother to ask for the monogram, Ford is sending a single initial with a letter asking them to go to their dealers for the missing letters.

Though everybody at both Ford and McIntyre is delighted with the response to the Digest. Wilson Prophet emphasizes that sales effectiveness, not volume, is the real test. Ford isn't saying much about how it plans to measure this, except that later this year it will mail out questionnaires to some of the people who responded to the Digest offer. The results, Ford believes, will help to find out just how useful direct mail can be in selling cars.

Apart from the Digest, Ford is continuing a policy of mailing some "hard sell" literature to Chevrolet owners. This is a letter and folder designed to contrast Ford's virtues with Chevy's alleged weak points.

Plymouth is spending some $1-million to send 4.5-million pieces of direct mail to owners of late-model Ford and Chevrolet station wagons and to Plymouth owners. The mailing will tie in with TV, magazine and newspaper ads, and with a $50,000 contest only open to people who receive a card signed by a Plymouth dealer. Plymouth is also sending its dealers names of people who receive its mailing.

Lincoln is sending letters addressed to "Dear Imperial Owner" and "Dear Cadillac Owner," and most of the other auto makers are also either considering or planning big direct mail campaigns. **END**

ADVERTISERS IN THIS ISSUE

Index for Business Week, February 21, 1959

ADVERTISING SALES STAFF

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John P. Taylor—Chicago

Eastern Advertising Sales Manager
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Atlanta 3....Douglas C. Billian, 134 Peachtree St., N. W. Jackson 3-6951
Boston 16......Kent Sanger, Park Square Bldg., Hubbard 2-7160
Chicago 11....Herbert M. Higgins, William F. Holbrook, James E. McShane, Robert Sidur, 520 N. Michigan Ave. Mohawk 4-5800
Cleveland 13......William C. Bradford, John G. Cashin, 55 Public Square, Superior 1-7000
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Denver 2.....John W. Patten, Mile High Center, 1740 Broadway, Alpine 5-2981
Detroit 26....G. Robert Griswold, Richard J. McGurk, Penobscot Bldg., Woodward 2-1793
Los Angeles 17......Alfred L. Blessing, 1125 West Sixth St., Huntley 2-5450
New York 36....Harold E. Choate, Fred R. Emerson, John H. Glover, John F. Juraschek, Francis F. McAdams, Bruce A. McNaughton, Al T. Ofstie, John H. Stevenson, 500 5th Ave., Oxford 5-5959
Philadelphia 3....R. Bernard Alexander, James T. Hauptli, Six Penn Center Plaza, Locust 8-4330
Pittsburgh 22......John R. Thomas, Oliver Bldg., Express 1-1314
St. Louis 8...John F. Boomer, Continental Bldg., 3615 Olive St., Jefferson 5-4867
San Francisco 4....John W. Otterson, 68 Post St., Douglas 2-4600
London.......Edward E. Schirmer, McGraw-Hill House, 95 Farringdon St., London E. C. 4
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THE TREND

Coming Up to a Test of Strength

It is a great misfortune for the U. S. and the Free World as a whole that Secy. of State Dulles should have been felled by a serious illness at this moment in history. During the crisis that is approaching over Berlin, the West will desperately need the formidable qualities that have won Dulles the central role in the formation and conduct of Western policy. For purposeful tenacity and negotiating skill he has had few equals among modern statesmen.

This nation can take comfort, however, from the response of its political leaders to the Secretary's cruel affliction and the admirable fortitude with which he bears it. In the Senate, for example, the leaders of both parties have rallied behind Dulles and his policy of stubbornly defending the interests of the Free World. On his sick bed, Dulles undoubtedly gets a sense of relief from this response in Congress, and perhaps he even takes a grim satisfaction from the way some of his severest critics outside political circles have suddenly begun singing his praises.

The country also can be thankful that, for the time being, Pres. Eisenhower can safely leave the conduct of our foreign policy in the hands of the men Dulles had gathered around him as his top assistants. Although the Secretary had a proclivity for one-man diplomacy, he had built up a strong team in Acting Secy. Herter, Under Secy. Dillon, Deputy Under Secy. Murphy, Asst. Secy. Merchant, and Counselor Reinhardt. The President can count on these officials to pursue the firm but flexible policy on Berlin that Dulles had worked out before he was stricken.

In deciding not to appoint a new Secretary at the present time, the President has been guided not only by his loyalty to Dulles and his confidence in these men but by the gravity and imminence of the Soviet threat to West Berlin. To the Russian mind, a change today in the top command at our State Dept. could easily suggest a change in U. S. policy, or at least an opportunity for new probing tactics. With Dulles holding down the office, there is less danger that the Soviet strategists will be led into any such miscalculation.

The Showdown

The test of strength over Berlin will be serious enough, in any case. It is not just a small island of freedom, located 100 miles behind the Iron Curtain, that is at stake. The Soviet aim, in trying to dislodge us from West Berlin, is to drive the U. S. right out of Europe and then to add all of Germany to the Soviet bloc. If Moscow ever succeeded in this goal, it then would have the economic and military strength both to cope with the rising strength of Red China and to dictate the terms of coexistence to the U. S.

What we face in Berlin is a direct challenge to our survival as a free nation—and a test of our will and capacity to act like a great power. From the day Soviet Premier Khrushchev issued his ultimatum on Berlin, Dulles sensed the reality of the crisis. We can be thankful that he was given time enough to shape a policy to meet it.

Defense Business

No session of Congress would be complete without at least one investigation of the Defense Dept.'s procurement policies. This year, it looks as though there will be several (page 34).

Congress is worried by the increasing concentration of defense business in the hands of a few big contractors. And it's also inclined to be critical of the Pentagon's increasing use of negotiated contracts instead of competitive bidding for military procurement.

An investigation or two may help the smaller businessmen who suffer by these policies to let off steam. But the plain fact is that both the trend toward concentration of defense business and the trend toward negotiated contracts arise from the very nature of the defense program. There isn't much Congress can do to change the situation.

It would be nice if military procurement could be spread around through business in such a way that it strengthened the small producers and gave a lift to the marginal firms. But the more complicated and sophisticated modern weapons get, the bigger and better equipped a contractor has to be to build them. The shift away from heavy volume production to experimental programs for enormously costly items, such as the ICBMs, practically shuts out the small contractor.

By the same token, you can't buy things like missiles by asking for competitive bids. The negotiated contract—probably the cost-plus contract—is the only answer.

Congress can and should insist on adequate safeguards in these contracts to see that the government gets its money's worth. But it can't expect to procure modern weapons on the same basis that it buys paper clips or mimeograph fluid. We hope that it will be too wise to try.